Finland Fmk7.00 · France FFr7.00 · Germany DM2.30 · Greece Dr120 · Hong Kong HK$12 · Iceland Ikr125 · India Rup15 · Lebanon £1,250.00 · Malaysia Rin4.25 · Mexico Peso300 · Morocco Dh6.00 · Neth Fl3.00 · Norway Nkr10.00 · Sweden SKr9.00 · Switz SFr2.30 · Taiwan NT$65 · Thailand Bht50 · Tunisia Din0.800 · Turkey L600 · UAE Dh6.50 · USA $1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,720 Thursday December 15 1988 D 8523 A

EC FINANCES
Brussels and the subsidies frauds
Page 20

World News

Armenia sees relations with Moscow deteriorate

Fresh evidence emerged of a sharp deterioration in relations between the Soviet authorities and the Armenian nationalist movement since the earthquake which devastated the republic last week. Page 26; Aid effort, Page 2

Israel coalition talks
Israeli Foreign Minister Shimon Peres agreed to serve as finance minister in a new national unity coalition headed by his political rival, right-wing Prime Minister Yitzhak Shamir, bringing closer the formation of a new Government after November's inconclusive election.

PLO wins support
Israel came under heavy criticism at the UN General Assembly special session in Geneva for its uncompromising rejection of Tuesday's peace overtures by Palestinian leader Yassir Arafat. Page 6

Soviet radar pledge
Moscow has said it will destroy some of the radar systems Washington considers a violation of the 1972 Anti-Ballistic Missile treaty, the US State Department said. The decision would affect installations at Gomel, north of Kiev.

SA liberal merger
South Africa's three liberal opposition parties agreed in principle to merge under a single banner in an effort to reverse a swing to the right among white voters.

Ethiopia crop hopes
Ethiopia is expecting a bumper grain crop, according to the UN Food and Agriculture Organisation, only four years after famine affected more than 6m people.

Palme suspect held
Swedish police said they had detained a 41-year-old convicted killer and were questioning him in connection with the murder of Prime Minister Olof Palme nearly three years ago. Page 2

Sri Lanka jail break
Sri Lankan security forces searched for more than 220 left-wing guerrillas who staged a spectacular jail break in Colombo on Tuesday night. Up to 30 people were reported killed in the escape. Page 6

Zaire-Belgium row
The Zairean Government, locked in a diplomatic row with Belgium, ordered its state-owned firms to move their Belgian representatives to other European capitals. Page 4

Threat to Sarney
The Brazilian Chamber of Deputies is to decide whether to impeach President Jose Sarney and four government ministers for administrative irregularities, congressmen said. But political analysts say the likelihood is remote.

Iran allows parties
Iran announced it would permit approved political parties to operate but warned would-be politicians to abide by Islamic and Iranian values.

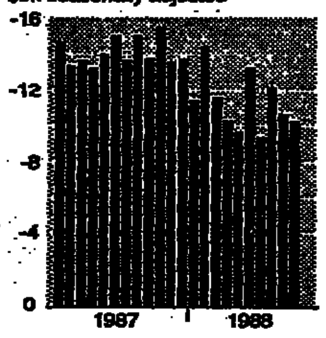
Yeutter appointed
US President-elect George Bush named as agriculture secretary Clayton Yeutter, the US Trade Representative who has played a major role in negotiations over agriculture in the Uruguay round international trade talks. Page 3

Business Summary

US trade deficit fell to $10.3bn in October

US trade deficit narrowed by $0.4bn to $10.3bn in October as imports fell 1.7 per cent to seasonally adjusted $38.02bn cif and exports by 1.1 per cent to $27.67bn, Federal Reserve Board figures showed output and capacity pressures continuing to rise sharply in final quarter of 1988, after slack third quarter. Page 3

US Trade Deficit
$bn seasonally adjusted



US Federal Savings and Loan Insurance Corporation (FSLIC) will need at least $85bn over the next 10 years to restore the financial health of the industry, according to a congressional report.

INTERNATIONAL PAPER, world's biggest paper company, is to buy Ilford photographic products division of Ciba-Geigy, Swiss chemicals group. F. Hoffmann-La Roche said it had finalised terms to sell troubled medical-instruments division to group of investors led by Baring Brothers, UK merchant bank. Page 21

TONY Berry, chairman of Britain's Blue Arrow employment services group, faces rebellion in his US business with vote of no confidence in management by angry local franchisees. Page 21

BRAZILIAN ports were crippled again as dockworkers' pay strike continued to disrupt shipping. Page 3

COATS VIYELLA, biggest textile group in Europe, said pre-tax profits could fall by as much as 40 per cent to £128m ($234m) this year because of increasingly competitive conditions in UK textile industry. Page 21; Lex, Page 20

SOUTH KOREAN construction companies have been invited to bid for a contract to build a $40m trade centre in the Soviet Far East city of Nahodka, near Vladivostok. Page 4

FIRST FIDELITY Bancorp, fast-growing US regional bank holding company, will report fourth-quarter loss of between $145m and $190m because of bad loans at Philadelphia and London branches. Page 22

CRA, Australian mining group 49 per cent owned by RTZ of UK, became first major Australian iron ore producer to settle terms with Japanese steel makers for year beginning April 1989, with average 15 per cent price increase. Page 33

MONTEDISON, Italian chemicals company controlled by Raul Gardini's Ferruzzi group, gave board approval to merging of substantial part of its activities with Enichem, state chemicals company. Page 22

MAN, West Germany's largest mechanical engineering group, is on track for rise in profits in financial year to June after strong increase in orders in first five months. Page 22

WEST EUROPEAN new car sales surged again in November, after temporary set-back in October, standing 4.4 per cent higher than year earlier at 1.001m units. Page 2

Strike by nearly 8m brings Spain close to standstill

By Peter Bruce and Tom Burns in Madrid

SPANISH trade unions brought the country to a near standstill yesterday as nearly 8m workers supported the first general strike called in 58 years.

The strikers, representing well over half the workforce, were protesting about the Socialist Government's employment policies.

The unions claimed the strike was a complete success. There was hardly any violence on the streets and the unions kept their promises to maintain minimum transport and emergency services.

Madrid by mid-morning was a ghost town. Out in its heavily industrialised southern reaches, groups of men huddled together in the cold clear morning, but it was hard to distinguish the few pickets from others waiting patiently for a bus or, forlornly, for a bar to open.

An embarrassingly timed visit to Madrid by the Austrian chancellor at least gave Mr Filepe Gonzalez, Spain's embattled Prime Minister, a chance to stage a press conference.

With Mr Franz Vranitzki looking on, Mr Gonzalez bluntly said he would not call snap elections and repeated his offer to the unions to talk.

The Union General de Trabajadores (UGT), the erstwhile fraternal labour arm of Mr Gonzalez's Socialist party, said the ball was now in the Government's court.

The UGT leader, Mr Nicolas Redondo, who engineered the 24-hour stoppage with the communist-lead Comisiones Obreras (CCOO) union, warned that there would be further strikes if Mr Gonzalez did not answer "positively" to the main demand of a change in the Government's conservative economic policies.

"The Government has to take note of what has happened today and respond to it," Mr Redondo said.

Cafes, cornershops, newspaper kiosks and cinemas stayed firmly closed – many because their owners were too scared to do business.

Television programmes were blacked out except for news bulletins, an event which had been anticipated and had created record video rental business the day before.

But the stock markets ignored the strike and sent the Government a completely different message by registering small gains in Bilbao and Valencia and only tiny losses in Madrid and Barcelona.

There was some violence, mostly outside the buildings of the Corte Ingles department chain which defiantly decided to open its 18 stores.

The Madrid pickets were overwhelmingly CCOO members, adding weight to the theory that the communist union had most to gain from the strike.

But by mid-afternoon only 40 arrests and eight slight injuries had been reported nationwide.

Mr Gonzalez said there would be no point in staging elections next year because "the situation (after the polls) would be substantially the same one as it is now."

Current opinion polls show he would be returned to power with a new overall majority.

"I fervently wish to talk (with the unions) and to agree, if possible, on how the economy should be run this year, next year and every year between now and 1992," Mr Gonzalez said, "but I have not had any answer from the unions."

Mr Gonzalez is unlikely to shift the main direction of his economic policies because he passionately believes only they can ensure continued growth for Spain and because he is convinced that the fundamentals – low inflation, fast job creation, rising exports and well controlled supply of money – endorse them.

But he will be under immense pressure to respond somehow, though it is anybody's guess what he will do.

Sacrificing a minister, even the Finance Minister Mr Carlos Solchaga, might prove a lot easier than changing political direction.

RTZ negotiating purchase of BP's mineral business

By Kenneth Gooding, Mining Correspondent, in London

RTZ, the British natural resources-based conglomerate said last night it was negotiating to buy the worldwide minerals business of British Petroleum, confirming rumours which have preoccupied the London Stock Market for some days.

Neither company would hint at the price, but analysts expect RTZ, the natural resources group, to pay between $3.5bn (£1.9bn) and $4.5bn (£2.5bn), making it one of the biggest deals in UK corporate history.

It also has considerable significance for both companies, for it is widely expected that BP will use the cash in some way to buy its own shares from the Kuwait Investment Office.

The KIO built up its stake after the oil company was privatised last year, but has been ordered by the UK Government to reduce its holding from about 22 per cent to under 10 per cent.

At the same time the deal would end speculation about how RTZ intends to spend the huge cash chest it built up following disposals which brought in a total £910m this year and saw the group withdraw from the oil and gas business.

Analysts suggest that, when credit facilities are included, RTZ has about £2bn of readily accessible funds. A number of potential candidates had been mentioned – including English China Clays, Delta Metal and Cookson, the speciality metals group – and all their share prices suffered on Friday last week when rumours of the BP deal emerged.

RTZ's share price also weakened, but yesterday in later trading after the formal confirmation of the talks it rose by 4p to 393p. BP shares had been buoyant after the rumours spread and the new shares gained 6p to 157½p and the old ones 6p to 259p.

The indications are that, although BP is keen to sell its minerals operations, it would prefer them to go to another UK company and it does not want to start an auction. The announcement yesterday stressed that RTZ was negotiating "on an exclusive basis."

If completed, the acquisition would mark a major swing of emphasis by RTZ back to its original natural resources business from which it has successfully diversified into related operations in recent years. Its acquisitions include the Pillar aluminium fabrication company and MK Electric.

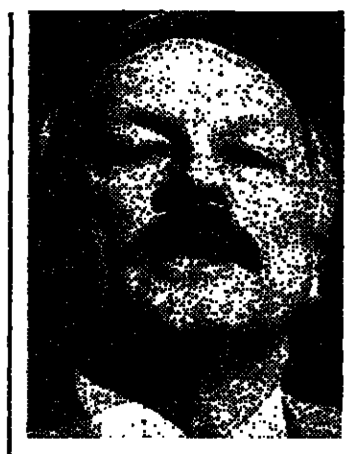
BP Minerals International's operations are based on two businesses acquired by the oil group in the early 1980s: Selection Trust, the London-based mining finance house, and Kennecott of the US, one of world's main copper producers.

The operations include the Bingham Canyon copper-gold mine in the US, a 49 per cent shareholding in the Olympic Dam copper-gold-uranium mine in South Australia and the QIT Fer et Titane company, based in Montreal, and which is the world leader in the supply of titanium dioxide feedstocks to the pigment industry with a 40 per cent market share.

BP Minerals also includes the gold company which the group was three times in the last year close to floating on the New York Stock Exchange – the last time putting a value of $1bn on the company. It withdrew at the last moment because of worsening stock or gold market conditions.

Excluded from the negotiations are two small Canadian mines which are part of BP Canada, a quoted company in which BP has a 64 per cent shareholding.

Lex, Page 20, Background, Page 21



N Zealand Finance Minister dismissed

By Dai Hayward in Wellington

MR Roger Douglas, the architect of New Zealand's revolutionary economic policies for the past four years, was yesterday sacked as Finance Minister by Mr David Lange, the Prime Minister and a former close collaborator.

He was replaced by Mr David Caygill, a former associate Minister of Finance who held the health portfolio.

The news stunned the financial markets, and the New Zealand dollar dropped 3 cents against the US dollar before recovering some lost ground later in the day. The stock market accepted the news more calmly.

The dismissal was the latest in a number of clashes, some over minor issues, between the two men and the culmination

Continued on Page 20
Background, Page 6; Editorial comment, Page 18

NTT chairman resigns over Recruit scandal

By Ian Rodger in Tokyo

DR Hisashi Shinto, one of Japan's most powerful industrialists for more than three decades, resigned yesterday as chairman of Nippon Telegraph and Telephone (NTT) under a cloud because of fresh evidence linking him with the Recruit Cosmos bribes scandal.

Dr Shinto, 78, confirmed reports late on Tuesday that Y9m ($736,200) had been deposited in his bank account by Mr Kozo Murata, his former executive assistant. The money was apparently part of the profits from the sale of 10,000 shares in the Recruit Cosmos property company.

However, he said he had been unable to get in touch with Mr Murata, who held both his bankbook and his personal seal, to confirm it.

Yesterday morning, Japanese newspapers, quoting officials close to the Tokyo public prosecutor's office, reported that Dr Shinto had received part of the profits from Mr Murata's Recruit Cosmos share sales.

Dr Shinto had originally denied allegations that he or Mr Murata had been involved with Recruit. He revised his statement early in November, however, confirming that Mr Murata had received 10,000 Recruit Cosmos shares. Mr Murata then resigned.

Dr Shinto's is the latest head to roll in the growing scandal which has so far implicated 26 leading politicians and civil servants. Last week, Mr Kiichi Miyazawa was forced to quit as Finance Minister because of his involvement in the affair.

Links between NTT and the Recruit group have become one of the focal points of the public prosecutor's investigation. In 1986 Recruit was soliciting NTT's help to get established in the data communications business. At the same time, it was offering large quantities of shares in its subsidiary, Recruit Cosmos, to NTT officials on advantageous terms before the Cosmos flotation.

Mr Ei Shikiba, an NTT director with responsibility for dealings with Recruit, was fired last week when it was learned that he had accepted Recruit Cosmos shares.

Dr Shinto yesterday met Mr Masaaki Nakayama, Minister of Posts and Telecommunications, to submit his resignation, saying he felt responsible for Mr Murata.

Dr Shinto has spent most of his career in the shipbuilding industry, much of it as the head of Ishikawajima-Harima Heavy Industries where he earned the nickname of Mr Rationalisation.

He retired in 1979, but was called upon in 1981 to overhaul NTT. He led it through privatisation and opened up its big procurement programme to international competition, and then retired again earlier this year.

Dr Shinto has been particularly critical of the "money game" which over the past couple of years has sent shares to astronomic levels and created an environment in which sharp share dealings could flourish.

Row looms over liberalisation plan for EC telecom services

By William Dawkins in Brussels

A SERIOUS political row between the European Commission and several EC governments was in prospect yesterday after the Commission decided in principle to liberalise a large part of the community's Ecu64bn ($76bn) telecommunications services industry.

Brussels adopted a draft scheme unilaterally to ban public monopolies over so-called value added services, the fastest growing part of the industry. They aim to do this without going through the usual process of consulting member states, a controversial tactic which was used earlier this year to force through plans to liberalise the telecommunications terminal equipment industry.

If carried through, the plan means all value-added services, such as data transmission, leased lines and financial data networks, would be released from the monopoly control of national telecommunications authorities in stages by January 1991. The proposal covers telefax transmission, but not mass services such as voice telephony or telex.

The plan would have the heaviest impact in West Germany, France, Belgium and Italy, where public authorities retain a strong grip on the provision of such services. The least impact would be felt in liberalised states such as the UK.

Value added services represent roughly 10 per cent of the industry, but they are growing at an average rate of between 25 and 30 per cent a year across the EC, against growth of between 5 per cent and 10 per cent for mass telecommunications services, according to the Commission.

The move is based on Article 90 of the Treaty of Rome – the EC's constitution – which allows the Brussels authorities to issue directives under their own initiative to prevent publicly owned monopolies from continuing to distort competition.

Four EC Governments, led by France, have already taken the Commission to the European Court of Justice for allegedly overstepping its powers by issuing a similar directive to liberalise terminal equipment. It is likely that the four will be equally incensed by yesterday's decision, even if they support the general principle of liberalising telecommunications services.

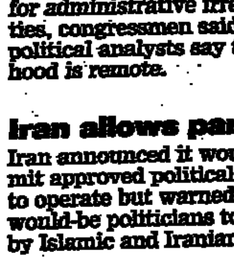
The services directive is accompanied by a related scheme, which will go through the normal consultation procedure, to set common conditions for open access by private operators to public telecommunications networks. Together, they form a crucial plank of the Commission's overall plan to create a free EC-wide telecommunications market by 1992.

Brussels will not act on the services scheme immediately. It aims to consult member states on the details of this so-called "orientation directive" before giving the final go-ahead, scheduled for next March – a far shorter decision making process than is usual with conventional EC legislation.

Stockbroking reciprocity proposal; Drinks all round, Page 20

MARKETS

New Zealand
Barclays Index



INTEREST RATES
US lunchtime
Federal Funds 8¾% (8½)
3-mth Treasury Bills: yield: 8.40% (8.38)
Long Bond: 99⅞ (100¼)
yield: 9.04% (8.97)
London
3-month interbank close 13⅛% (same)

STERLING
New York close $1.8285 (1.82)
London: $1.8300 (1.826)
DM3.18 (3.195)
FFr10.87 (10.9125)
SFr2.68 (2.6575)
Y224.50 (225.0)

DOLLAR
New York close DM1.74625 (1.74895)
FFr5.9450 (5.977)
SFr1.46525 (1.4719)
Y122.70 (122.265)
London: DM1.7370 (1.7475)
FFr5.94 (5.97)
SFr1.4650 (1.4705)
Y122.70 (123.1)

GOLD
New York latest Comex Feb $426.4 (+2.3)

STOCK INDICES
New York close Dow Jones Ind. Av. 2,134.25 (-9.24)
S&P Comp 274.59 (-.39)
London: FT-SE 100 1,756.1 (+3.5)
World: 157.81 (Tues)
Tokyo Nikkei Ave 29,754.73 (+155.92)
Frankfurt Commerzbank 1,607.7 (+7.4)

OIL
Brent 15-day (Argus) $15.02 (+0.17) (Jan)
West Tex Crude $16.175 (+0.10) (Jan)

CONTENTS

Zambia keeps South African trade links despite rhetoric

At independence, Zambian premier Kenneth Kaunda gave 12 months' notice of his intention to terminate all trade agreements with South Africa. A quarter of a century later, it is Zambia's biggest supplier
Page 4

East-West security deal likely in days

By Judy Dempsey in Vienna

THE FEW remaining obstacles to ending the East-West security talks in Vienna look likely to be resolved over the next few days, and it now seems increasingly probable that fresh conventional arms reductions talks will begin early in the New Year.

This more optimistic assessment of prospects for an early end to the Vienna meeting of the 35-nation Conference on Security and Co-operation in Europe (CSCE) follows a number of significant developments in US-Soviet relations, including Mr Mikhail Gorbachev's promise to cut the Soviet armed forces.

Moscow has also stopped jamming US broadcasting stations and allowed more Jewish "refuseniks" to emigrate.

While the West has yet to be satisfied that all Soviet political prisoners have been freed, the recent Soviet moves seem to have persuaded the US and most of its Nato allies to settle for a CSCE deal, which would open the way for arms talks. Most Western countries also seem prepared to agree to Moscow's wish to host a human rights conference in 1991.

Earlier this week, the Czechoslovak authorities announced they would lift the jamming of Radio Free Europe, lifting yet another obstacle.

A formula designed to resolve a Franco-American dispute over the institutional link between the proposed Conventional Stability Talks (which would group the 16 Nato and 7 Warsaw Pact countries) and the wider CSCE process is under consideration by the 12 neutral CSCE participants, and by the Warsaw Pact. Already several diplomats from the neutral states say they accept the formula.

The other outstanding issue is which parts of Turkey the CST would cover. Soviet and Turkish diplomats are continuing to hold intensive talks on the question.

Apart from Soviet concessions, the accelerated progress on human rights reflects the eagerness of both Washington and Moscow to see the talks finish before President-elect George Bush assumes office.

Diplomats from several Western countries, notably Canada and Britain, caution against what they term "undue euphoria", on grounds that some East European countries remain inflexible on certain humanitarian issues.

Despite yesterday's easing of restrictions on travel for its own citizens, East Germany still refuses to lift the compulsory currency purchases at high rates for Western visitors.

Some East European diplomats suggest Mr Erich Honecker, the East German leader, is reluctant to see his country's delegation in Vienna bow to Soviet pressure.

The growing feeling among both East European and Western diplomats is that the East German recalcitrance will just have to be accepted.

E Berlin eases rules on travel

By Leslie Colitt in Berlin

EAST GERMANY has for the first time issued regulations on liberalised travel and emigration to the West.

Nearly 1.2m East Germans below retirement age are expected to visit relatives and friends in West Germany this year. But millions of citizens have been barred from travel without being given a reason, a source of great frustration to an already dissatisfied population. The new "decree," published yesterday in the Party newspaper Neues Deutschland, offers greater hope for East Germans applying to visit relatives in the West or seeking to emigrate.

Citizens from the age of 18 may apply to visit relatives in the West. Applicants whose requests are turned down must be informed of the reason for the rejection. Until now they were usually told by local police officials that this was none of their business.

Applicants will also be able to appeal against rejections for the first time. The appeals will be considered by local internal affairs officials and, if turned down, may then be presented for a court review.

The publication of the new regulations comes 16 years after they were agreed with West Germany. Neues Deutschland was sold out yesterday as citizens sought to obtain documentation of their "rights."

E Germany's doors creak open

Visits to relatives abroad may become easier, reports **Leslie Colitt**

"A GOOD government is a rarity" a character in the opera The Tsar and the Carpenter sang last week at East Berlin's baroque German State Opera House. The finely attuned East German audience appreciated the sentiment and burst into unexpected applause.

It was indicative of the present mood in East Germany. Not since the Berlin Wall was built in 1961 has the orthodox East German leadership – under Mr Erich Honecker since 1971 – been subjected to so much criticism by citizens. The demoralisation of the population provoked the leadership into issuing regulations yesterday on visits to the West and emigration. They provide, for the first time, for a right of appeal if visits or emigration are refused.

The regulations are a step forward from the previous arbitrariness of local officials who never gave reasons for denying travel and emigration to citizens. But families will still not be able to visit the West nor will persons who are privy to "confidential" information. In a closed society such as East Germany this encompasses millions of people.

A main cause of dissatisfaction is now the deteriorating centrally-planned economy which has led to a worsening in consumer goods supplies.

Although East German supermarkets and department stores are better stocked than in neighbouring Czechoslovakia, citizens see no consolation in having the highest standard of living in Comecon. As Germans they are only interested in what is available in West Germany and the gap between the two economies continues to grow.

The director of the Planeta printing machinery company, one of the few successful East German exporters to the West, fled to West Germany recently after the authorities refused to allow him to sell more to the West. His plan to reward the best workers with payments in hard currency was also rejected.

At the same time, though, East Germans go to enormous lengths in order to obtain deutschmarks needed to buy otherwise unavailable products in the chain of hard currency shops.

Western companies seldom bother to apply for patents in East Germany as they no longer fear competition from its state firms. This further demoralises the citizens of an industrial region which was the heart of prewar Germany's consumer goods industry.

East Germany's most prestigious concern, Carl Zeiss Jena optical and electronics company, recently developed a 1 megabit memory chip at enormous cost and said it would come out with a 4 megabit chip in 1990. But a colour TV set in East Berlin's Centrum department store costs 6,250 ostmarks ($3,633) and a very basic personal computer sells for 3,300 ostmarks. By contrast, average industrial earnings are Marks 1,100 a month. While housing, basic foods and transport are highly subsidised and cheap, a new Wartburg car – waiting time 12 years – costs Marks 30,000.

The ruling Politburo's total rejection of Mr Mikhail Gorbachev's glasnost and perestroika reforms in the Soviet Union has undoubtedly robbed East Germans of whatever hope they had of changes within their own country.

Mr Gerhard Schürer summed up the leadership's anti-reformist stance last weekend in Zwickau, the Saxonian city where East Germany's Volkswagen, the tiny, obsolescent two-stroke Trabant car, is produced. "Some people" were trying to talk East Germany into dismantling central planning and introducing the market economy, he said. "But our reply is we trust the socialist planned economy. It has proven itself" Mr Schürer insisted.

Equally frustrating is the rigidity of the Party in its relationship with ordinary citizens. At the weekly half-hour political meeting in her place of work, an East German woman office worker criticised Mr Nicolae Ceausescu of Romania during his recent visit to East Berlin. She noted that Mr Ceausescu had again been awarded a high East German decoration by Mr Honecker although the Romanian leader was universally condemned for his arbitrary rule.

The Party Secretary in charge of the discussion replied routinely that she was not aware of this from reading "our newspapers."

East Germany's policy of providing a minimum of information in the media is especially baffling as East Germans are extremely well-informed by West German radio and television. The peak of absurdity, however, was reached recently when the authorities banned the Soviet publication Sputnik and several Soviet films for criticising Stalin.

A just-completed East German TV film which is to be aired later this month on the founding of the German Communist Party 70 years ago had large chunks removed by the Party and placed in the so-called "poison cabinet" for dangerous ideas. The Party's cultural officials were offended by personal details regarding Rosa Luxemburg, a founder of the Party. Such mindless censorship which is reminiscent of the Brezhnev era in the Soviet Union has further alienated the East German intelligentsia.

Mr Gorbachev, however, who has other, more pressing problems, appears content to allow orthodoxy to prevail in East Germany as long as it provides the Soviet Union with the machinery and equipment it requires. Meanwhile, Mr Honecker announced last week that he will be in charge at least until the next Party Congress in 1990 and, perhaps, even longer.

Soviet general rules out army backlash over troop cuts

By Quentin Peel in Moscow

A TOP Soviet military commander yesterday dismissed rumours of a military backlash against Mr Mikhail Gorbachev's decision unilaterally to cut the Soviet armed forces by 500,000 men and thousands of tanks and artillery pieces.

He expressed amazement at "sensation" in the West over the cuts, insisting that they were dictated by the "unswerving logic of the present reforms".

Col-Gen Vladimir Lobov, deputy chief of the Soviet general staff, also said in an interview with the weekly newspaper Moscow News that the full savings from the cuts would be made in two to three years, providing "a huge sum" for spending on other sectors.

At the same time he sought to reassure the 500,000 troops facing demobilisation that a specific plan had already been drawn up to return officers and men to civilian life, with a guarantee that they would not be "let down, either morally or materially."

Gen Lobov, considered a possible successor to Marshal Sergei Akhromeyev, the retiring chief of staff, gave only one hint of the debate over unilateral cuts which is widely believed to have precipitated the Marshal's retirement.

"As a military professional who has worn a military uniform his entire life, you would expect that I should feel obliged to regret the cutbacks in divisions," he said. "This was the way they used to look on things in my youth – and they were probably right."

But he stressed the political acceptance of the change.

He said: "The world is changing now so quickly, and we have become not simply onlookers, but participants in the changeover from the principle of super-defence, to the principle of reasonable sufficiency.

"The army cannot exist in isolation from politics. . . The army is a barometer of those events and processes which are occurring within the country. Could the Soviet army really remain stagnant and unchanged in the age of new political thinking?"

On the question of demobilising 500,000 officers and men, he said it would inevitably be more difficult for the officers. "Many have been in the army all their lives, and cannot imagine their lives without the army."

Demobilisation, and the difficulty of finding jobs in civilian life, could easily become an explosive issue for Mr Gorbachev if ill-handled, at a time when the Government is seeking to redeploy thousands of bureaucrats from the state sector.

Gen Lobov admitted that military cuts in the 1960s had been handled badly and promised it would not happen again. "Many lost their jobs just two years before they were due to receive their pensions," he said. "This won't be repeated."

He said the majority had engineering training, and would be able to find "no less well-paid jobs at industrial enterprises".

They might even find jobs in former defence industry factories, possibly ones being converted to civilian production in line with Mr Gorbachev's proposals.

W German students learn to squeeze in

By David Goodhart in Bonn

WEST GERMANY'S universities are bursting at the seams and its students are spilling out of their overcrowded lecture halls on to the streets to protest in greater numbers than at any time since 1968.

The culprits are the planners and the 1960's baby-boom. It seems that nobody foresaw quite how strongly demand for university places would rise, so now 1.5m students squeeze into universities designed for half that number with obvious consequences for the quality of courses.

About 25 per cent of German school-leavers go to university and having passed their "Abit" they can go to any university they choose - except in the most popular subjects - which means the crush is even more serious in attractive cities such as Munich or Berlin.

Overall student numbers have nearly doubled in the past 15 years – Bonn University has risen from 18,000 to 40,000 – while the number of teachers has remained constant. In 1975 the average student-teacher ratio was 29:1 and today it is 38:1, rising to nearly 150:1 in some subjects.

Mr Helmut Kohl, the Chancellor, will today announce an emergency grant of DM2bn (£625m) over the next seven years at a special meeting of officials from the federal government and the Länder (states) – which share financial responsibility for the universities.

That has been criticised as too stingy by leaders of the students and teachers especially as the Education Ministry is now predicting that numbers will not fall below 1.3m until the year 2000.

The student spokesmen are winning the headlines with stories of people unable to attend seminars because there is insufficient space, or students sleeping rough because of the lack of cheap accommodation. In Munich it is impossible to find a single room for less than DM800 a month.

But the sharp fall-off in student numbers after the year 2000 makes it pointless to start a crash university-building programme. Some commentators believe the only solution is to give more control over intake to individual universities. A cap on numbers at the most popular would at least spread the problem more evenly.

The other widely canvassed solution is to encourage a reduction in the length of study. The 250,000 new students who entered university in October will study for an average of seven years, and because of the recent switch from grants to loans the length of study is tending to increase.

Another problem is that too many of those students are acquiring skills for which there is no demand. Medical courses remain packed despite a chronic over-supply of doctors and yet there are shortages in many higher technical skills.

However North-Rhine-Westphalia's plan to phase out 483 teaching posts in the liberal arts over the next few years, and transfer the resources to business and information technology courses, has met with resistance from both students and teachers.

Nations hasten to aid Armenia

By James Blitz

THE ARMENIAN earthquake has drawn offers of support from a wider range of governments than any previous disaster, according to the Office of the UN Disaster Relief Co-ordinator in Geneva.

At least 23 governments throughout the world have responded to the earthquake with emergency aid, and the support is continuing. It is too early to quantify exactly how much has been given: the US State Department has calculated that $26m (£14.2m) has been given by governments, and the Red Cross, through which many government donations have been made, says it has received at least $35m.

Japan has made the biggest donation of cash to the relief operation, giving its Red Cross agency nearly $9m. The UK government has given £5m, its biggest initial aid donation ever in the aftermath of a disaster. In comparison, Britain gave £2.5m in immediate response to the Bangladesh floods this year, and £2m in immediate response to the floods in Sudan.

However, France has made by far the largest contribution in terms of relief officials, sending around half of the foreign aid workers who are now in the region. Each country has particular methods of responding to a crisis on this scale. According to Ms Pam Pouncey of the International Department of the British Red Cross, "Britain's instinct is not to send lots of people into a disaster area, but to send supplies to be used by as many local people as possible who are trained to do the job."

Although the Soviet authorities have admitted that their own relief effort has been deficient, Western aid workers say that problems are bound to occur.

"One has to take into account", says Ms Pouncey, "that in a disaster of this scale, even the most carefully laid out plans can be difficult to execute."

DONATIONS TO ARMENIA SINCE THE EARTHQUAKE

Country	Amount	Remarks
AID FROM GOVERNMENTS		
Japan	$9m(Yen1.1bn)	90% cash
UK	£5m	Largest UK initial aid package
Canada	$5m	
European Commission	$1.8m	First EC-Soviet aid
Nigeria	$1m	
Gulf States	$0.5m	
World Total	$26m	Source:US State Dept.
RED CROSS AND PRIVATE AID		
Name	Amount	Remarks
Red Cross	$35m	From 25 countries, half in cash,rest in kind.
British Red Cross	£0.5m	Likely to reach £1m
Moscow Narodny Bank contributions	£1m	
US Telethon Appeal	$3m	
Occidental Petroleum and World Vision	$1m	
AIRCRAFT		
Country	Number	Remarks
USSR	200	40 from Moscow
France	5	
US	5	
Sweden	4	
Overseas Total	60	from at least 23 countries

De Mita to outline East bloc aid strategy

By John Wyles in Rome

ITALIAN Prime Minister Mr Ciriaco De Mita is expected to outline his ideas for a co-ordinated Western approach to aiding economic developments in the Soviet Union and Eastern Europe at meetings in Washington today with President Ronald Reagan and President-elect George Bush.

Despite having attracted some criticism at home and abroad for having at first presented his scheme in a speech in Moscow as a possible offspring of the US' post-war Marshall Aid Plan for Western Europe, the Italian Premier has been fleshing out his proposals in a similar vein in Los Angeles this week.

He has called on the West to establish a link between the degree of economic aid it is ready to offer and moves which the Soviet Union and Eastern Europe must make towards opening up their societies.

These would include respect for human rights and the free circulation of people and capital.

Meanwhile, the West should remain cautious, avoiding giving "gifts" to President Gorbachev, maintain its pressure for asymmetrical conventional arms reductions by the Eastern bloc and emphasise that it has no interest in "financing what constituted until a short time ago a possible threat of war".

The De Mita vision also includes a new "political joint venture" between the US and Europe which would be capable of deflating the twin threats of European neutralism and US isolationism.

Man held in Palme inquiry

By Robert Taylor in Stockholm

A 41-YEAR-OLD unemployed Swede living by himself in Stockholm was seized early yesterday by the police for questioning about the murder of the country's Prime Minister Olaf Palme nearly three years ago.

The man, who has not been named, was convicted during the early 1970s for several violent crimes, including the murder of a drug addict with a bayonet very close to where Mr Palme was shot.

The police questioned the man, among many others, shortly after Mr Palme's murder but it was only this summer that it emerged there was doubt over his alibi on that evening. Over the past few months they have put him under surveillance and his phone is alleged to have been tapped.

Witnesses to Mr Palme's assassination in February 1986 were being called in by the police yesterday to see whether they could identify the man, who it is claimed had a deep hatred for Mr Palme though no apparent political connections. The inability of the Swedish police to find the killer of Mr Palme has been a constant source of embarrassment to the authorities, who have been accused of bungling the investigation.

A wide range of theories has emerged, as a result, about who gunned down the Swedish premier, including suggestions that it was a conspiracy by a Kurdish extremist group backed by Iran, the work of the Pinochet regime in Chile or right-wing Croatian nationalists.

Even members of Sweden's own intelligence services were suspected of being responsible for the death of the Prime Minister on the grounds that they believed he was a dangerous Soviet agent.

Earlier this year the lack of a breakthrough in the Palme murder inquiry led to the establishment of a free-lance investigation by a publisher Mr Ebby Carlsson, which was endorsed by the country's justice minister Mrs Anna-Greta Leijon. She was forced to resign when revelations about the private inquiry were leaked to the press. The resulting political scandal did not prevent the ruling Social Democrats winning the autumn general election but it further damaged the credibility of the public authorities.

Book-keeper to die

THE book keeper at a collective farm in the Soviet central Asian republic of Turkmenia has been sentenced to death for embezzling millions of roubles over a period of five years, a local newspaper said, Reuter reports from Moscow.

Turkmenskaya Iskra said that Mr Redzhep Durdyyev had formed a criminal gang "devoted to wholesale plundering of state funds over the course of many years."

WEST EUROPEAN NEW CAR REGISTRATIONS
January-November 1988

	Volume (Units)	Volume Change(%)	Share (%) Jan-Nov 88	Share (%) Jan-Nov 87
TOTAL MARKET	12,033,000	+4.4	100.0	100.0
MANUFACTURERS:				
Fiat (incl. Lancia & Alfa Romeo)	1,779,000	+7.5	14.8	14.4
Volkswagen (incl. Audi and Seat)	1,765,000	+2.8	14.7	14.9
Peugeot (including Citroen)	1,541,000	+11.3	12.8	12.0
Ford	1,375,000	-0.6	11.4	12.0
General Motors (Opel, Vauxhall)	1,261,000	+2.9	10.5	10.6
Renault	1,209,000	-0.2	10.1	10.5
Austin Rover	424,000	+7.2	3.5	3.4
Mercedes-Benz	414,000	+1.8	3.4	3.5
Nissan	357,000	+4.8	3.0	3.0
Toyota	329,000	+1.5	2.7	2.8
BMW	333,000	+22.4	2.8	2.4
Volvo	246,000	-0.2	2.0	2.1
Total Japanese	1,359,000	+4.2	11.3	11.3
MARKETS:				
West Germany	2,587,000	-3.1	21.5	23.1
United Kingdom	2,124,000	+10.5	17.6	16.7
France	1,962,000	+3.4	16.3	16.4
Italy	2,022,000	+8.5	16.8	16.2
Spain	969,000	+15.4	8.1	7.3

Source : Industry estimates

West European car sales surge 4.4%

By Kevin Done, Motor Industry Correspondent

WEST EUROPEAN new car sales surged again in November following a temporary setback in October and were 4.4 per cent higher than a year ago at 1.001m units.

New car sales are set to reach a record level for the fourth successive year and in the first 11 months of 1988 have risen by 4.4 per cent to 12.03m units, according to preliminary industry estimates.

Sales for the full year could exceed 12.8m compared with the 12.4m units in 1987.

Fiat of Italy and Volkswagen of West Germany are locked in an intense struggle for market leadership. VW has led the European car sales league for the last three years, but it has trailed behind the Italian car maker for much of this year.

For the first 11 months Fiat was still marginally ahead, according to industry estimates, with 14.8 per cent of the market compared with the 14.7 per cent captured by VW, but the gap had narrowed to only 14,000 cars across 17 West European markets.

Following a drop of 5 per cent in sales in October, demand surged again across a broad front in November with sales climbing in 13 markets led by sharp rises in several small markets such as Portugal, Austria and Greece.

West Germany, the largest European market, is the only major volume market where sales have fallen in the year to date, with a decline of 3.1 per cent in the first 11 months.

Sales have grown strongly in the three major volume markets of the UK, Italy and Spain, but the small Portuguese market has emerged as the star performer with a jump of 6[illegible] per cent in the first 11 months.

Car sales have exceeded 2m units in Italy for the first time this year, and are set to exceed 1m units in Spain for the first time.

In the battle among the big volume car makers, Ford and Renault have produced the weakest performances with small declines in overall sales despite the growth of more than four per cent in the total European market.

Ford claims it has been unable to make up the production it lost in February, when a two-week strike closed its UK plants and also shut down some of its continental European operations. Its sales have dropped by 0.6 per cent to 1.375m units and its market share has declined to 11.4 per cent from 12 per cent a year ago.

Last year it was pushed into fourth place in the European car sales league by the resurgent Peugeot group of France, and it has fallen further behind the three leaders during 1988.

Peugeot has made the biggest inroads among the volume car makers with a jump of 11.3 per cent in sales volume in the first 11 months, boosting its market share to 12.8 per cent from 12.0 per cent a year ago.

Brussels optimistic on Italian steel plan

By Williams Dawkins in Brussels and John Wyles in Rome

EUROPEAN Community officials yesterday voiced high hopes the West German government would give the go-ahead to a controversial rescue plan for the Italian state-owned steel industry.

At the end of a meeting of the EC's Industry Ministers on Wednesday, Bonn was alone in refusing to accept a European Commission compromise plan that would allow Rome to inject L5,113bn into Ilva, formerly Finsider, by 1990.

The company's recovery plan calls for a recapitalisation of around L7,180bn, plus around L600bn of other funds in return for shedding 20,000 jobs and shutting down 1.18m tonnes of hot rolled capacity. This restructuring will cut a sizeable chunk of the surplus production capacity overhanging the whole EC steel industry.

Despite being forced to accept only two-thirds of the cash injection he was seeking, Mr Carlo Fracanzani, Italy's Minister for State Shareholdings, was satisfied yesterday that since July Italy had persuaded 10 of its 11 originally sceptical partners to accept the restructuring plan.

Ilva managers were yesterday trying to assess the financial and other implications of a reduced refunding programme. The most obvious appears to be that there would be a severe threat to the company's hopes of turning in a small L138bn profit in 1990. The Brussels compromise fixes Ilva's debt servicing burden at 5.5 per cent of turnover,

Ilva would be allowed to reduce its debt servicing burden to 4.5 per cent of turnover in September 1990, and to take the balance of the restructuring funds it was seeking provided that it then comes forward with more closures.

Formally, Bonn wants more specific closure guarantees. However, officials said further discussions within the German government were expected to produce enough flexibility to allow a full agreement at a meeting of EC Trade and Industry Ministers next Wednesday.

Greece suffers wave of strikes

By Andriana Ierodiaconou in Athens

A WAVE of public sector strikes for higher pay swept Greece yesterday as parliament began to debate the Socialist Government's Dr1.4trillion (£5.2bn) budget for 1989.

The strikes, led by the Greek civil servant's union ADEDY, crippled public services. State hospitals functioned with emergency staff only and universities, technical institutes and primary and secondary schools remained closed.

The Socialist Government's 1989 budget foresees a 14.9% increase in expenditure for salaries and pensions relative to 1988, from Dr945bn to Dr1.1trillion. Spending in 1989, which is a general election year in Greece, will favour health, education and welfare. Strikers regard the increases as insufficient, but Athens has come under fire for the record budget deficit foreseen for 1989, which is equivalent to 16.2 per cent of GDP.

Prague radio jam

CZECHOSLOVAKIA plans to end its jamming of broadcasts by Radio Free Europe, the state news agency CTK said yesterday, Reuter reports from Prague.

The agency gave no date, but the decision follows a similar one last month by the Soviet Union. Moscow stopped jamming Radio Liberty and reduced its efforts to block other Western broadcasts.

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US trade deficit narrows to $10.3bn in October

By Anthony Harris in Washington and Janet Bush in New York

THE US trade deficit improved by $0.4bn to $10.3bn in October, the Department of Commerce announced yesterday. Meanwhile the Federal Reserve Board issued figures showing that output and capacity pressures continue to rise sharply in the final quarter of the year, after a slack third quarter.

All the figures were closely in line with market expectations, and the markets continued to drift while awaiting the outcome of the meeting of the Federal Open Market Committee, which ended yesterday. The FOMC is considering statistics which suggest a high pressure of demand and activity, along with reports from member banks which paint a more subdued picture of the economy.

The trade figures reflected falls in both imports and exports from their high September values, and the change in the balance was more than accounted for by a sharp rise in export deliveries of aircraft, always a volatile series.

Other details showed the effects of high domestic demand: exports of chemicals and paper products, where capacity is under strain, fell sharply. On the import side there was a surge in shipments of manufactures, which rose $2.2bn from September and stood at $2.8bn above the monthly average for the first nine months of 1988.

Such a surge was widely expected after earlier reports that wholesale and retail stocks had been reduced sharply in earlier months, in an effort to avoid the excess inventories which built up in the final quarter of 1987.

The November industrial output figures from the Federal Reserve showed a volume increase of 0.5 per cent for the second successive month, with manufacturing output up 0.6 per cent. Capacity utilisation is reported to have risen to 84.2 per cent, the highest figures since 1983. This compares with 84 per cent in October and a revised 83.7 per cent in September.

Yesterday's figures generally confirmed what the markets already knew about the economy: that progress in cutting the trade deficit is now very slow indeed and that manufacturing industry continues to produce at a healthy rate and is running at very high capacity levels.

The economic releases did not give much strength to arguments either for or against a US discount rate rise and it was the dollar's weakness yesterday which prompted falls in stocks and bonds.

A major talking point yesterday was higher interest rates overseas. The Belgian and Dutch central banks moved key interest rates ¼ point higher and there were widespread expectations that today's policy-making Bundesbank council meeting could decide on a rise in the key Lombard rate.

Many New York dealers speculated yesterday that, if there is no clear domestic economic argument for a US discount rate rise, then perhaps the impetus will come from rate rises overseas if the dollar comes under severe downward pressure.

Pentagon in contracts move

By Lionel Barber in Washington

THE Pentagon has announced proposals for buying the bulk of its major weapons under long-term contracts, a move which it claims will save up to $8.54bn.

The proposed changes – which must be approved by Congress – are in a two-year defence budget for fiscal 1990-91 which calls for a 2 per cent increase after inflation above the current budget of $299.5bn.

Mr Frank Carlucci, the Defence Secretary, submitted his spending requests this week to the Office of Management and Budget which is set to present a total Federal budget for Congressional approval next month.

The Pentagon said the proposed extension of long-term buying contracts would cover 32 weapons systems over a five-year period. Among the weapons expected to be covered are the Stealth bomber, the C-17 transport aircraft, the Bradley fighting vehicle, the Apache helicopter, and the F/A-18 fighter bomber.

Under the present annual budgeting system, Congress has wide authority each year to earmark funds for specific weapons and cancel projects. Pentagon officials contend that this annual "micro-managing" introduces uncertainty into the procurement process and drives up production costs.

The drawback is that multi-year procurement costs more at the outset. It can also "lock-in" weapons systems which may make future force-restructuring difficult.

For most of this year, Mr Carlucci has been battling to get to grips with the Pentagon budget, which faces a huge mismatch between planned spending and Congressional approved funding. The scale of the problems is one reason why President-elect George Bush has yet to name his choice of Defence Secretary.

If Congress approves a zero-growth budget this year, the Pentagon estimates the armed services will have to cut $100bn from budgets over the next five years. Some analysts believe the figure could be far higher.

On Tuesday, Mr Carlucci ordered 3,000 armed forces job cuts over the next three years, starting next year. Many of the cuts are expected to involve staff positions around the world.

The 2.1m-strong armed forces have already been trimmed by more than 40,000 in the past year to promote more efficient use of manpower. At least 20 obsolete US military bases around the country are also slated for closure, according to reports on Capitol Hill.

Mr Dan Howard, chief Pentagon spokesman, said the budget request "projects no further cuts in force structure. That means we can maintain the current force as it is".

Ruling may awaken Quebec controversy

By Robert Gibbens in Montreal

QUEBEC's long-simmering language controversy could erupt into street demonstrations again if the Supreme Court of Canada declares today that the province's French-only sign regulations violate the right of free speech under the Canadian constitution.

The Supreme Court will hand down judgment on two challenges to Article 58 of Quebec's Official Languages Act, or Bill 101. The law bans the use of unilingual English public and commercial signs and prevents the use of bilingual French-English signs.

In December 1986, the Quebec Court of Appeal struck down the Bill 101 provisions forbidding firms from displaying bilingual signs or using English company names, but it also found Quebec had the power to forbid the use of unilingual English signs. The Supreme Court cases stemmed from this decision.

The judgments are keenly awaited by Quebec Nationalists and the opposition Parti Quebecois – now rededicated to separatism – by the federal government and all other provinces. Quebec's reaction could endanger the Meech Lake Constitutional agreement, under which the province is to be declared a "distinct society" and rejoin the confederation.

Bill 101 is the French language charter and was the key legislation of the separatist Parti Quebecois government after it came to power in 1976. It defused the debate but led to an exodus of anglophones.

The PQ objective was to make French virtually the sole language of work and to encourage the full francophone takeover of economic power in Montreal.

Premier Robert Bourassa and his Quebec Liberals, re-elected in a landslide victory in December 1985, had promised anglophones amendments to Bill 101 so as to allow bilingual commercial signs at least in anglophone areas of Montreal, but he decided to await the legal process. The English-speaking minority is now concentrated almost exclusively in Montreal's western section.

Yeutter chosen as agriculture secretary

By Nancy Dunne in Washington

US President-elect Mr George Bush yesterday named as his agriculture secretary Mr Clayton Yeutter, the US Trade Representative who has played a major role in negotiations over agricultural trade in the Uruguay round of international trade talks.

At the same time Mr Bush remained evasive about whether he would appoint former Texas Senator John Tower as defence secretary. Although Mr Tower has been considered a front runner for the job, there has been opposition to his appointment both within the Bush camp and in Congress.

Mr Bush said that Mr Yeutter's appointment would send a "significant message" to the US's trading partners because of Mr Yeutter's commitment to opening markets abroad. "Our shared national goal of free agricultural trade and expanded agricultural exports will have no greater advocate," Mr Bush said.

Mr Yeutter, a farmer and rancher himself, increased his popularity when he held firm in the Gatt mid-term review last week in Montreal on his insistence that the European Community agree to phase out all market-distorting farm programmes.

Although the talks ended in a stalemate, Mr Yeutter has since expressed optimism that the impasse will be resolved by April, the new deadline agreed on for resolution of outstanding issues. He said yesterday that the differences between the EC and US should not be ove-restimated.

In a recent interview with the Financial Times, Mr Yeutter acknowledged having wanted the agriculture job in 1980 and 1984. Instead he was appointed Trade Representative in 1985.

He is taking over the department as US farmers are still fighting back after a deep recession and drought. Thousands are still heavily in debt and liable to lose their land this year.

Skilled negotiator faces farm impasse

Peter Montagnon reports on a popular choice for a tough task

WITH his nomination as agriculture secretary last night, Mr Clayton Yeutter has realised a long-coveted ambition.

Despite his reputation as a skilled and sophisticated international trade negotiator acquired during a 3½ year stint as US Trade Representative, Mr Yeutter has made no secret of his abiding interest in agriculture which goes back to his childhood in rural Nebraska.

International trade officials believe that Mr Yeutter, 58, is one of the few people in Washington who could work effectively to help resolve the impasse over farm reform that beset last week's trade ministers' meeting in Montreal.

Though he was head of the US delegation there, the final breakdown of these discussions owed most to the implacable attitude of Mr Richard Lyng, President Reagan's Agriculture Secretary, whom Mr Yeutter is to succeed.

Mr Yeutter brings to his new job a high international profile, which is rare among US Agriculture Secretaries, as well as practical expertise and an acute awareness of the context of agriculture in the overall Uruguay Round of multilateral trade negotiations.

Albeit at a distance, he should also be able to lend support to the US effort in the Uruguay Round while his relatively inexperienced successor as US Trade Representative, Ms Carla Hills works her way into the job. Ms Hills is known as intelligent and tough and has served in government before, but she has almost no practical experience of the issues of trade policy.

Mr Yeutter was a key figure in helping dissuade Congress from indulging its worst protectionist excesses in the preparation of this year's US Trade legislation. Experience gained there should help when Congress starts work on a new Farm Bill next year.

Clayton Yeutter: high international profile

As rumours surfaced about his appointment last week in Montreal, delegates were pinning their hopes on the fact that he showed considerably greater willingness than Mr Lyng to explore ways of finding alternative language that could have satisfied the EC without appearing to abandon the basic US objective for long-term term elimination of all trade-distorting farm subsidies.

Yet his appointment yesterday does not in any way mean that President-elect Bush has revised this position. Mr Bush said yesterday that he shared President Reagan's objectives on dismantling farm subsidies.

It would also be difficult to underestimate the domestic political pressures facing Washington over short-term farm reform which would have to be agreed as part of an overall package in the Uruguay Round.

The outspoken and gregarious Mr Yeutter is warmly regarded in the international trade community. Trade diplomats believe that his appointment means real negotiation, which proved impossible in Montreal, may now finally get off the ground. What is harder to read, however, is the degree to which he will have freedom of manoeuvre.

Ruling on Ecuador loans

US BANKING regulators have downgraded Ecuador's creditworthiness and will mandate that domestic banks set aside specific reserves for a percentage of their exposure to the country, Reuter reports from New York.

Ecuador, which owes foreign banks about $6.5bn, has not been servicing its debt for about 18 months. Bankers estimate that interest arrears total about $1bn.

The regulators – the Federal Reserve, the Comptroller of the Currency and the Federal Deposit Insurance Corp – are expected to rule that banks must reserve 15 per cent of their medium-term, non-trade-related loans to the country.

Bankers said they were not surprised by the "value-impaired" ruling, given Ecuador's payments record. They believed the mandatory charge would be taken immediately.

However, since most big US banks already have reserved at 25 per cent of their total Third World exposure, it is unclear whether the latest ruling will be particularly onerous.

Anglo-Argentine talks

MR Dante Caputo, the Argentine Foreign Minister, yesterday discussed the long stalemate in Anglo-Argentine relations with Sir Crispen Tickell, Britain's permanent representative at the United Nations, Robert Graham reports.

The Geneva meeting was at Mr Caputo's initiative and formally in his capacity as the current president of the UN General Assembly.

However, the main purpose was to consider ways of breaking the deadlock over restoring normal diplomatic and commercial ties between the two countries.

Official comment on the meeting, which followed Tuesday's special debate on the Palestine question, was muted. The UK Government had already decided well in advance that nothing of substance could be raised.

For at least three months Argentina's Government has apparently been anxious to show greater flexibility on the vexed issue of its sovereignty claim to the Falklands Islands.

Brussels urges Japan to cut cheese tariff

By Ian Rodger in Tokyo

THE European Commission yesterday called on Japan to make "a drastic cut" in its 35 per cent tariff on cheese imports.

"A country with an $80bn surplus does not need to protect its cheese market, Mr Michael Lake, counsellor at the EC Delegation in Tokyo, said at a press conference to publish an EC-sponsored study of the Japanese dairy industry.

The EC also urged the Japanese Government to liberalise the law restricting the spread of supermarkets and to redirect government cheese promotion grants from production subsidisation to generic cheese promotion and consumer education.

The EC study notes that the Japanese market for dairy products in general is significantly underdeveloped.

Daily consumption of liquid milk at 0.1 litres per capita is less that one-third the British level. Butter consumption at 1.8 grams per day is less than one-tenth of that in West Germany while cheese consumption, at 2.2 grams per day, is one-twentieth of Italian or Dutch levels.

The study argues that low consumption is due partly to excessive prices on dairy products, a situation which arises from the industry's peculiar structure.

The farming sector is relatively efficient but Japanese dairy farmers have to pay high prices to a near-monopoly co-operative for imported feeds.

On the other side, the processing sector has strong characteristics of an oligopoly – selling by the few. The three main producers, Snow Brand Milk Products, Meiji Milk Products and Morinaga Milk Industry, account for 65 per cent of the markets for butter, condensed milk, powdered milk and cream and lactive drinks.

"The current mechanisms of import protection work almost exclusively for the benefit of these big processors, with the aim of firstly reducing their competitors' market access and by increasing their sales' prices significantly," the EC report says. In addition to the 35 per cent tariff on cheese, there are strict quotas, often at nil, on imports of cream, butter, powdered whey, condensed milk and powdered milk.

Other obstacles to importers include sanitary import requirements and the Large Stores Retail Law. This restricts the opening hours and the expansion of supermarkets. It means that importers have difficulty getting access to shelf space for their products.

The EC study also finds it odd that the proceeds of a government promotion fund for domestic cheese consumption are used to subsidise the big processors' raw material costs rather than for promoting cheese products among consumers.

Mr Lake said the EC has decided to focus on trying to get improved access to the Japanese cheese market rather than all its dairy markets partly because cheese is of interest to all EC countries. It is also a significant EC export, amounting to more than $80m a year.

The EC also considers that the Japanese cheese market is one which has a chance of growing rapidly as consumers become more sophisticated. At the moment, the natural cheese market in Japan is only 120,000 tonnes a year, of which imports from the EC amount to 27,000 tonnes.

Boeing annual sales reach record $29bn

SALES of Boeing jet airliners have reached a record for a single year, after the announcement yesterday of orders worth more than $900m (£492m) for 26 aircraft, writes Michael Donne.

The 1988 total is now 621 airliners on firm contracts (excluding options), worth over $29bn.

This compares with last year's Boeing total of 366 aircraft on firm order, worth $20.2bn. The 1988 total will be even higher, because further orders are likely to be announced before the end of the year. The increase has stemmed partly from a sharp growth in passenger traffic.

Yesterday, it was announced that America West, a big US airline, had ordered 15 Boeing 737-300 twin-engined short-to-medium range jet airliners, and 10 of the bigger Boeing 757 twin-engined medium-range jets, worth over $800m.

Saudia, the Saudi Arabian airline, announced a deal for one new Boeing 747-400F long-range freighter aircraft, worth over $100m. Also, Viasa of Venezuela has signed a letter of intent to buy two long-range McDonnell Douglas MD-11 tri-jet airliners, with an option on a third. The total value is likely to exceed $200m.

McDonnell Douglas also said that German Wings planned to buy four MD-83 short-range twin-engined jets, with options on another four aircraft.

S African goods tempt Zambia

Nicholas Woodsworth explains how demand overcomes rhetoric

TO THE greatest empire builder of them all, the economic integration of the African continent was more than just wild talk. When Cecil Rhodes at the end of last century spoke of linking the Cape to Cairo he meant it, and began building a railway that snaked towards Egypt, more than 5,000 miles from the goldfields of the Transvaal.

The iron rails were never finally laid through the steamy bush of equatorial Africa, and the dream, like so many here, was eventually abandoned. But real northward progress was none the less made. Even today, the main thoroughfare that parallels those rails in the Zambian capital of Lusaka carries the name Cairo Road. And as the display of South African goods in the shops along Cairo Road shows, Rhodes's dream of economic integration based on a white-dominated Africa was not entirely unrealised.

Since independence in 1964 Zambia has been a staunch opponent of white-ruled South Africa. Zambia's president, Mr Kenneth Kaunda, is one of the few remaining pre-independence African leaders, and the fervent anti-racism of that political generation continues to dominate his policies.

As chairman of the anti-apartheid "front-line" states Dr Kaunda has built his reputation on a refusal to negotiate with Pretoria. Lusaka gives full backing and is headquarters to the African National Congress, banned in South Africa as a terrorist organisation.

Despite this Zambia is heavily involved economically with South Africa.

At independence Zambia gave twelve months' notice of its intention to terminate all trade agreements with South Africa, then second to colonial Rhodesia as Zambia's principle supplier. But a quarter of a century later, South Africa, supplying 20 per cent of Zambia's foreign inputs, has edged out both Britain and Zimbabwe as the leading exporter to Zambia.

Trade with South Africa is a highly sensitive subject in Zambia and most government officials refuse to discuss it. Others deny that it exists.

At shops of the state-owned Zambian Consumer Buying Corporation (ZCBC), for example, there are aisles of South African wine and tinned goods. Yet the National Import and Export Company, ZCBC's supplier, maintain there is nothing of South African origin sold in the shops. "We have no trade links with South Africa at all," said one senior company executive. "We neither buy from South Africa, nor do we source other country's products through South Africa."

Private-sector companies in Zambia are more willing to admit the economic realities that make it difficult not to buy from South Africa. "South African goods are cheaper than European ones," says the representative of a shop on Cairo Road selling South African refrigerators, cookers, and other household appliances.

"Quality is high, and transport costs are much lower. If you order from South Africa, delivery time is one week. From Europe it's two to three months."

While Zambia's official policy is to source away from South Africa, the country is in no position to import under any but the most advantageous terms.

Zambia has never developed an industrial export base. Until the mid-1970s imports – which were consumer rather than producer oriented – were paid for by the country's copper industry, which earns more than 90 per cent of Zambia's foreign exchange.

Since then, economic mismanagement, dwindling copper output, and most recently, a severing of relations with the International Monetary Fund has led to steep economic decline. A foreign exchange crisis has been accompanied by high levels of inflation, a rampant black market, and a shortage of consumer goods.

Unofficial policy, in these circumstances, is to import from wherever goods are cheapest, and this is South Africa more often than elsewhere.

Although trade statistics concerning South Africa are not published in Zambia, outside sources estimate that of the $717m-worth of goods imported into Zambia in 1987, about $142m-worth were South African. British imports came second at $123m.

"We are trying to cut off South African imports progressively," says Mrs. C.L.C. Ssewankambo, Permanent Secretary at the Ministry of Commerce and Industry, "but for the moment we can not do without them." Mrs Ssewankambo illustrates the difficulties encountered by Zambian importers by pointing out that many European exporting companies demand minimum quantity orders. "If businessmen here haven't got enough foreign exchange to order at least a container's-worth of goods, South Africa is often the only solution," she says.

That solution hardly satisfies demand. When a shipment of a South African product such as soap powder arrives in Lusaka's supermarkets, it disappears within hours.

As one relieved housewife clutching six boxes of Durban-made Surf to her bosom reasoned outside a supermarket, "Zambian soap can't keep us clean because there usually isn't any. Life is hard enough anyway - who's going to stay dirty if they don't have to?"

India aims to step up barter business

By K.K.Sharma in New Delhi

INDIA plans a substantial increase next year in what amounts to countertrade with several countries in eastern Europe in an attempt to slow down the erosion of foreign exchange reserves. These have been seriously depleted by a hefty adverse balance of trade.

Commerce Ministry officials place the increase in barter trade with the Soviet Union, Poland, East Germany, Czechoslovakia and Romania – the five countries with which annual plans for balanced trade are formulated – at nearly 20 per cent next year with the turnover amounting to a planned Rs 95bn (£3.5bn).

Since India's total two-way trade turnover is estimated at about Rs 450bn next year, trade with these four countries will account for just under 25 per cent of the country's total foreign trade. The plan is to raise this proportion in future – the lead coming with Indo-Soviet trade which is targeted to increase 250 per cent by 1992.

Although trade with Western and Third World countries and Japan is also expected to increase – particularly as Europe and Japan continue to be the main suppliers of modern technology and equipment – officials expect there to be a considerable deflection of trade to eastern Europe.

Much of this will come in the form of machinery exports from the Soviet Union since a number of development projects in energy and industry have been identified for Soviet aid. But considerable importance is attached to the rising trade with the other four countries with which annual trade plans were recently finalised.

Countertrade, or what is known as rupee trade in India because no foreign exchange is involved, has been used with the Soviet Union and the east European countries for more than two decades. Officials say the two-way turnover with them has increased substantially as a result.

Rupee trade involves the formulation of annual trade plans in which imports and exports are balanced.

Moscow invites bids from South Korea

By Maggie Ford in Seoul

SOUTH KOREAN construction companies have been invited to bid for a contract to build a $40m (£21.9m) trade centre in the Soviet Far East city of Nahodka, near Vladivostok.

Mr Lee Sun Ki, president of the the Korean Overseas Trade Promotion organisation (Kotra), said on his return from Moscow that the two sides planned to set up trade offices in each others' capitals early next year.

South Korea does not have full diplomatic relations with any East bloc country but Hungary has set up a permanent mission and trade office in Seoul and agreements have been signed with Poland and Bulgaria.

Mr Lee said the invitation to bid for the Nahodka contract was the first sign that Moscow wanted to include South Korea in its plans for developing Siberia. A special economic zone is to be set up around Vladivostok to promote Pacific trade.

Korean companies which wished to bid for the deal would have to raise half the cost in local export credits backed by a Soviet government guarantee, he added.

● The trading arm of the Samsung Group, South Korea's largest company, is reported to have applied for a licence to import a consignment of dried fish from North Korea.

Trading, along with all other contact with the communist North, has long been banned but regulations have been changed recently in line with government policy to improve relations.

Austrian group to arrange credit for Soviet importers

By Judy Dempsey in Vienna

AN AUSTRIAN trade finance and barter company set up two months ago has signed a credit line with a Soviet bank with the aim of financing Canadian and US exports to Soviet foreign trade organisations.

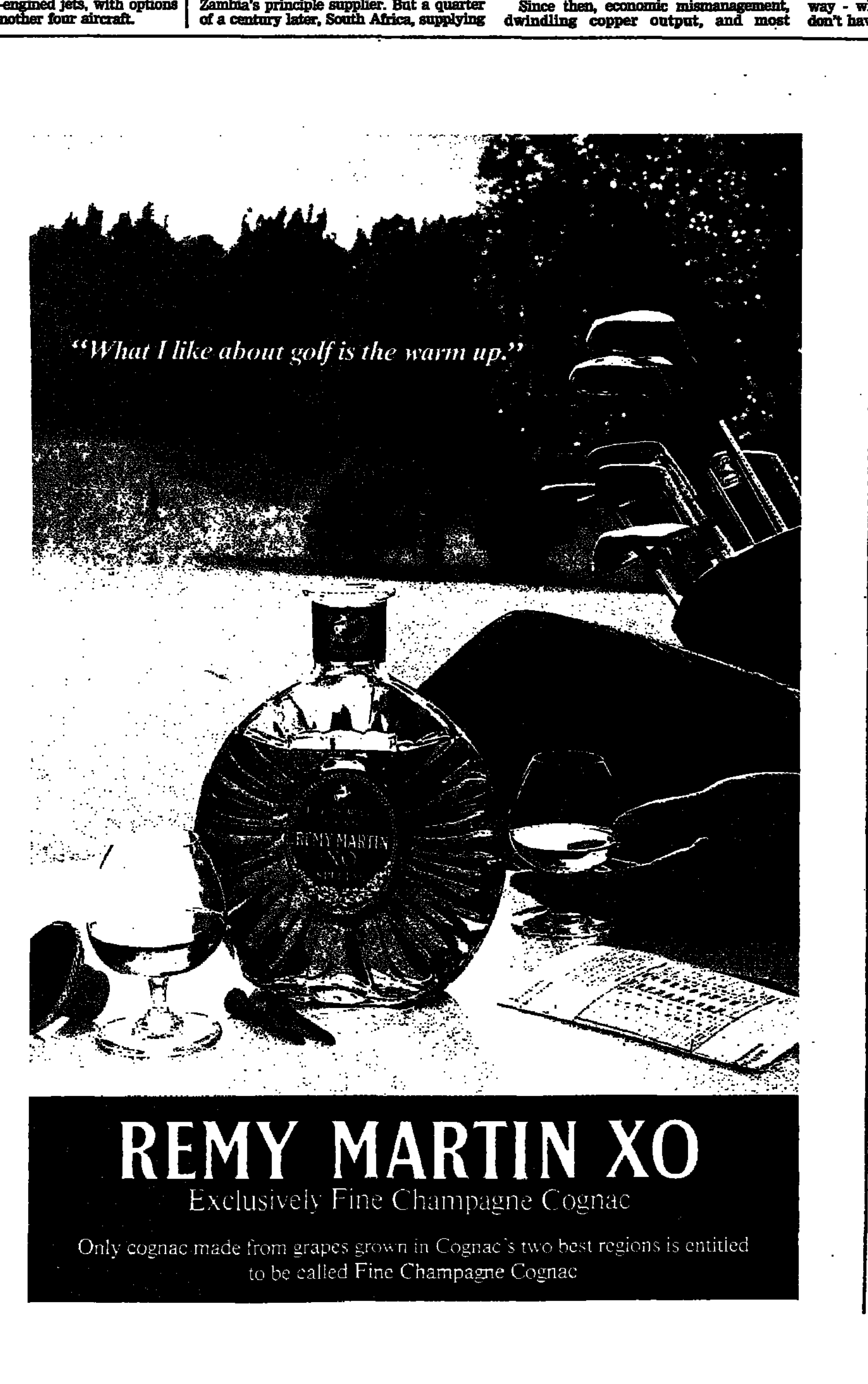
The credit line amounts to $50m (£27.3m) and will be spread over a five-year period.

The deal, which was agreed last week, involves the San Francisco-based CAWT International Trade and Finance Corporation and the Bank for Foreign Economic Affairs of the Soviet Union, known as Vneshekonombank.

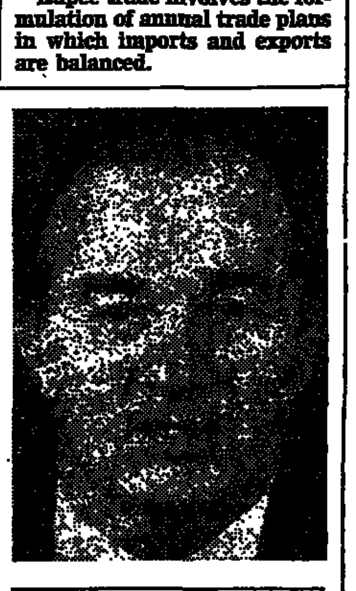
CAWT is a joint subsidiary of Creditanstalt-Bankverein, Austria's largest bank, and AWT, a long-established countertrade and financing company which has much experience of East-West trade.

Under the terms of the contract, CAWT will finance exporters to the Soviet Union who have not obtained support from Eximbank, the US government export financing bank.

The contract entails CAWT directly financing Soviet importers while US and Canadian exporters will receive payments on a 100 per cent non-recourse basis as soon as the goods have been delivered.



Real world 'has little room for ideology'



John Bohn, above, who is leaving Eximbank, talks to Nancy Dunne

MR John Bohn Jr, departing chairman of the US Export-Import Bank, is urging the next US Administration to ground its trade policies in the realities of global economics and trade.

"I have done all I can do, not all there is to be done," said the man considered to be the most able Eximbank chairman for years. Under his stewardship, the agency, which provides trade financing, has instituted wide-ranging reforms and shifted the bank's focus from large-scale project financing to boosting trade for small and medium-sized US business.

"We've been able to provide a significant degree of innovation and flexibility in the kind of things we've done – from expropriation insurance to a leasing programme to risk-based financing," he said.

However, US trade policy and Eximbank's role within it have been constrained by the anti-Communist free market ideology of the Reagan Administration. Mr Bohn, for instance, would have no quarrel on economic grounds with providing trade credits for the Soviet Union. In the real world, he says, if the US does not provide financing, one of its competitors will.

The realities of protected markets call for more bilateral pacts, like the US-Canada free trade agreement. "Either people will play fairly with us, or we will have to play with the people who do."

The US must also recognise the evolution towards mixed credits – mingling commercial financing with foreign aid funds. The US insistence on an agreement under the Organisation for Economic Co-operation and Development, raising the aid component in mixed credits, has failed to discourage the governments of Japan, France, Italy and Canada, Mr Bohn said. In fact, between 1986 and 1987, Japan raised its mixed credit financing by $1.5bn (£820m).

In many markets, the name of the game is mixed credits and the US is not even a player. A $300m "war chest" provided by Congress to combat mixed credits offered by foreign competitors can only be used "defensively" – in cases where the OECD guidelines are violated. Eximbank was able to use only $78m in fiscal 1987, and $7.6m in 1988.

Foreign aid must also be redefined in the context of reality. "We could define debt reduction as appropriate for aid budgets, but the aid people are still talking about schools in Botswana," he said.

The trade/aid debate is now to go to the OECD Development Assistance Committee, where the US is urging that the type of permissible foreign aid be defined. Mr Bohn, however, is pessimistic that this will curb mixed credits.

While he says the US cannot afford to stand by and watch markets lost to mixed credits, it also cannot afford to join battle under current budget priorities. Eximbank's direct loan authority has been repeatedly slashed and last year its funding ran out in the summer. This year, it could be exhausted even sooner.

A $1.1m cut in the agency's administrative budget has left the bank understaffed and falling behind in processing applications. A revision in its bookkeeping provided more bad news. Loans placed on a non-accrual status rose from $709m to $2.9bn, increasing losses for fiscal 1988 from $235m to $455m. The bank is not expected to return to the black until the year 2008.

"We've always taken our economic and financial position for granted," Mr Bohn said. "Now we have to ask whether national security shouldn't be more broadly considered as economic security."

The US, he said, must find a mechanism for dealing with trade policy making. Authority is now fragmented among several departments – the US Trade Representative, the Commerce and State Departments, the Treasury and the Pentagon.

"All of these have different agendas, and somewhere in the middle lies an agenda which talks about our international and financial viability as a nation." Within that lies a proper definition for the role of Eximbank.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1980=100);retail sales value (1980=100);registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod	Mfg. output	Eng. order	Retail vol.	Retail value	Unem-ployed	Vacs.
1987							
4th qtr.	108.5	108.7	29.1	133.3	210.8	2,658	262.1
1988							
1st qtr.	108.1	110.8	30.9	135.3	173.3	2,488	249.9
2nd qtr.	110.0	112.7	31.2	137.9	181.2	2,364	256.2
3rd qtr.	111.0	115.0	31.4	139.2	188.0	2,228	244.3
February	108.9	109.4	32.4	135.4	168.5	2,485	249.8
March	108.6	111.1	31.7	135.4	175.1	2,454	248.4
April	108.4	111.9	31.0	136.3	180.4	2,403	255.9
May	110.1	113.1	31.3	137.7	180.5	2,364	254.5
June	110.4	113.1	31.2	137.0	182.3	2,324	255.1
July	110.8	115.4	31.3	140.0	191.4	2,267	249.7
August	111.1	116.3	31.5	139.5	187.7	2,226	242.8
September	111.4	116.4	31.4	138.4	185.6	2,182	240.3
October	111.1	116.6		141.2	198.7	2,169	251.2
November				140.5			

OUTPUT- By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Cnsmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1987							
3rd qtr.	105.0	104.8	107.5	105.4	110.7	104.7	19.9
4th qtr.	106.3	107.4	106.5	107.7	113.4	103.2	17.0
1988							
1st qtr.	106.3	105.7	106.4	107.0	115.0	104.2	19.6
2nd qtr	111.0	108.1	108.4	110.2	121.5	101.4	22.3
3rd qtr	114.1	114.4	108.5	113.6	124.2	102.0	20.3
February	106.1	104.8	108.3	105.0	116.0	104.0	20.5
March	108.8	106.7	108.2	108.9	113.0	102.0	21.6
April	110.0	107.0	108.4	109.9	124.0	101.0	21.9
May	110.1	108.1	108.4	108.0	120.0	102.0	19.5
June	111.7	112.8	108.2	112.0	119.0	101.0	20.9
July	114.1	112.8	108.4	113.0	127.0	103.0	18.4
August	113.6	115.4	108.4	115.0	127.0	101.0	18.2
Sept.	114.8	115.6	108.8	114.0	119.0	101.0	17.7
October	114.5	115.3	108.1	115.0	128.0	109.0	16.4

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1987							
2nd qtr.	108.2	111.3	-2,380	-355	+1,016	97.6	34.36
3rd qtr.	109.2	119.5	-3,291	-1,103	+936	97.9	34.81
4th qtr.	111.9	120.8	-3,280	-1,881	+1,073	97.6	44.33
1988							
1st qtr.	106.5	117.8	-3,862	-2,842	+879	97.0	44.64
2nd qtr	111.1	127.4	-4,821	-3,002	+677	98.6	48.52
3rd qtr	110.5	135.6	-5,629	-4,129	+363	99.1	59.64
February	105.6	118.0	-1,636	-1,166	+302	97.1	42.93
March	107.5	115.7	-1,824	-654	+216	98.8	44.64
April	113.3	124.9	-1,237	-731	+306	98.2	47.86
May	108.6	127.2	-1,713	-1,206	+221	98.7	48.53
June	111.8	131.0	-1,872	-1,066	+148	98.7	48.52
July	107.8	145.3	-2,687	-2,187	+65	98.5	49.63
August	104.8	130.3	-1,848	-1,348	+141	99.8	59.84
September	118.9	131.2	-1,094	-594	+157	99.9	58.48
October	107.2	146.1	-2,929	-2,429	+96	97.6	50.05
November							51.04

FINANCIAL-Money supply M0, M1 and M3 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmer. credit† £m	Base rate %
1987							
3rd qtr.	5.0	20.5	19.7	+11,448	1,211	+874	10.00
4th qtr.	4.9	23.8	22.9	+11,202	3,007	+946	8.50
1988							
1st qtr.	5.3	21.0	20.9	+12,603	5,061	+1,035	8.50
2nd qtr	6.6	18.6	20.3	+15,343	4,173	+1,064	9.50
3rd qtr.	7.6	17.3	20.3	+15,740	3,102	+1,137	12.00
January	4.6	21.9	22.5	+5,596	890	+288	8.50
February	5.3	21.9	20.6	+2,535	1,102	+321	9.00
March	5.8	21.0	20.9	+4,752	1,069	+426	8.50
April	6.1	21.2	19.4	+5,964	1,576	+281	8.00
May	6.2	19.9	16.6	+3,197	1,358	+365	7.50
June	7.3	18.5	20.3	+6,192	1,239	+438	9.50
July	6.9	17.9	20.6	+6,538	1,362	+298	10.50
August	7.9	15.7	20.1	+3,143	1,179	+518	12.00
September	8.4	17.3	22.4	+6,059	621	+321	12.00
October	7.8	13.7	19.5	+3,878	1,383	+61	12.00
November							13.00

INFLATION-Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100);retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931 =100); trade weighted value of sterling (1975=100)

	Earn-ings*	Basic matls.*	Whsale. mnfg*	RPI*	Foods	Reuters* cmdty.	Sterling
1987							
3rd qtr.	117.7	95.3	108.6	102.1	100.5	1,847	72.7
4th qtr.	120.6	96.4	109.8	103.2	101.7	1,883	74.9
1988							
1st qtr.	121.7	96.9	111.8	103.7	103.5	1,747	75.3
2nd qtr	124.8	97.8	112.6	106.2	104.6	1,917	77.6
3rd qtr.	127.5	98.5	113.9	108.6	104.7	1,902	75.9
January	120.5	98.1	110.6	103.3	102.9	1,752	74.9
February	120.4	96.8	111.0	103.7	103.6	1,755	74.3
March	124.1	96.7	111.4	104.1	103.9	1,734	76.8
April	124.4	96.3	112.2	105.8	104.4	1,736	78.2
May	124.2	97.7	112.6	106.2	104.7	1,778	78.4
June	125.9	99.5	113.0	106.6	104.9	1,936	76.3
July	128.3	99.4	113.5	106.7	104.0	1,970	75.6
August	126.8	98.8	113.9	107.9	104.4	1,863	75.5
September	127.3	98.2	114.2	108.4	104.3	1,873	75.5
October		98.0	114.8	109.5	104.9	1,874	76.3
November		99.5	115.1			1,888	77.1

*Not seasonally adjusted

†Net changes in amounts outstanding, excluding bank loans.

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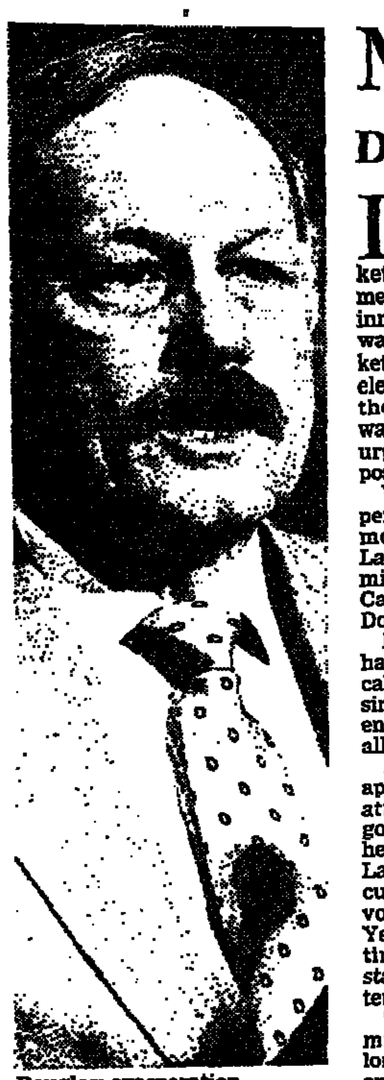
OVERSEAS NEWS



Douglas: exasperation

Markets descend into gloom following Douglas's departure

Dai Hayward and Chris Sherwell on the cause and effects of the dismissal of New Zealand's radical finance minister

IT says something about the current state of New Zealand under its free-market oriented Labour government that, on the day its most innovative economic reformer was sacked, key financial markets were blacked out by an electricity workers' strike and the Reserve Bank Governor was kept in the dark while he urged businessmen to think positively.

Yet that is exactly what happened yesterday at the very moment when Mr David Lange, the Prime Minister, dismissed his most important Cabinet colleague, Mr Roger Douglas, as Finance Minister.

For impact, the sacking was hard to beat: the biggest political and economic development since the festering crisis which ended New Zealand's defence alliance with the US.

Mr Douglas, in a move which appeared to reflect his exasperation over attempts to curb government spending, declared he would not serve under Mr Lange if the Labour party caucus re-elected him leader in a vote due early in the New Year. He also said, for the first time, that he might himself stand against the Prime Minister for the leadership.

This open revolt was too much for Mr Lange, a man long sensitive to criticism. His antipathy for Mr Douglas had grown increasingly apparent since Labour's re-election in August 1987, and for all the smooth talk on both sides, the feeling was mutual.

So at lunchtime in Wellington, moments after Mr Douglas made his statement of discontent, Mr Lange ordered him to the backbenches, where he joined Mr Richard Prebble, a Douglas supporter sacked from the Cabinet by Mr Lange last month.

A short while later, Mr Trevor de Cleene, a minister outside cabinet with finance responsibilities, announced his resignation. For Mr Lange, that means a big political worry, because together, these men could create havoc in parliament and the party.

Some MPs will, however, certainly welcome the dismissal of Mr Douglas. The President of the Labour Party last night expressed support for Mr Lange, and the Prime Minister's position both within the party and the public could be strengthened by his decisive action and removal of Mr Douglas yesterday.

The test will come in a caucus vote expected over the next few days. Few people doubt that Mr Lange will emerge from such a vote with his leadership intact, and most believe that, if Mr Douglas really did intend to challenge him, his chances of success are probably lower than ever.

Yesterday Mr Douglas said he would continue to fight for the country's economic recovery. Hitherto he has always denied having leadership ambitions, saying he would be happy to return to his pig farm or to business when the time came.

Among Finance Ministers, his record as an economic reformer is unmatched among governments in the OECD countries. A man obsessively driven by a monetarist, free-market credo which came to be called "Rogernomics," he became the undisputed architect of New Zealand's economic revolution.

Mr David Lange (left) with his choice for Finance Minister, Mr David Caygill

Almost single-handedly he deregulated New Zealand's financial markets, floated the currency, removed import licensing and tariffs, commercialised government departments, began major government asset sales, introduced a comprehensive consumption tax and slashed personal and corporate tax rates.

His aim was to demolish the inflationary psychology of a generation, and to change New Zealand from an isolated and molly-coddled super-welfare state to a robust and competitive free-market one. His problem, it turned out, was that it began to take much longer than expected, and cause more pain, in the form of unemployment, than Mr Lange dared tolerate.

The first major break – pinpointed by Mr Douglas himself as leading to yesterday's parting of the ways – was last January. While Mr Douglas was overseas Mr Lange cancelled an economic package, including a flat tax rate proposal, which had been announced by Mr Douglas, with the Prime Minister's support, on December 17.

Yesterday Mr Douglas claimed he had offered to delay announcing the package if Mr Lange had any doubts but the Prime Minister said no delay was necessary. The former Minister of Finance says he was assured nothing would be done to amend the package until he returned from overseas. He also claims that by implementing only part of the package the wealthy had been given tax cuts while the lower paid were denied family income assistance.

Mr Douglas cited other differences of opinion or unilateral actions by the Prime Minister – which until now have remained unknown to the general public – where Mr Lange countermanded Douglas initiatives. He also accused the Prime Minister of acting without consulting or discussing his plans with Cabinet.

Recently the differences between the two most powerful men in the New Zealand Government have become public. They were, as Mr Douglas said, "tearing the government and the country apart".

So impossible did the Lange-Douglas relationship become, many saw it as the cause of the recent rise in interest rates, delaying economic recovery. The last straw for Mr Douglas came while he was abroad recently, when his press secretary was removed.

By last week it was obvious that there would be a showdown before Christmas. But no one predicted it would come yesterday. Had Mr Don Brash, the Reserve Bank Governor, known, he could have made alternative plans. Instead he found himself addressing the Chamber of Commerce in Auckland, appealing to businessmen to show confidence in the future, when the news came from Wellington.

As for the strike by workers at the newly-created Electricorp, that made an unfortunate mockery of New Zealand's supposedly accessible financial markets in the much-vaunted post-deregulation era. The all-electronic futures markets were closed, while in the bond and foreign exchange markets business was extremely limited and, in the words of one Auckland trader, "dangerous."

By the end of the day the New Zealand dollar stood at 61.8 US cents, slashed from 63.8 cents but off the bottom of its slide. Yields on five-year bonds, which are the most closely watched, shot above 14.7 per cent against 14.1 per cent before the tumult.

With the inflation rate at about five per cent, that means New Zealand's real interest rates are among the highest in the OECD. As the country is already deep in recession, the outlook appears grim.

The main hope now is that the political air has been cleared and the economic uncertainties of 1988 are at an end.

Editorial comment, page 16

Zaire companies ordered to pull out of Belgium

By William Dawkins in Brussels

ZAIRE yesterday raised the stakes in its diplomatic row with Belgium and ordered its state-owned companies to pull out of the country and relocate elsewhere in Europe.

The Belgian Foreign Ministry believes at least 10 Zairean state-owned businesses have offices in the country, including Air Zaire. The list includes four other transport and freight businesses, the Gecamines copper export company, and sales offices for the country's gold and diamond mines.

The Belgian Government called on Zaire to clarify and explain the order, which most observers regarded as impractical. A Foreign Ministry spokesman said that Brussels wanted to know exactly who took the decision and why before responding to this latest step in the continuing row between the two countries.

So far there has been little direct involvement by government officials in Zaire. The Government's apparent intentions have been carried by the official Zaire news agency, Azap, the source of yesterday's announcement.

The row was sparked off by Zaire's rejection last month of a Belgian offer to reschedule the debts of its former African colony on softer terms. Mr Wilfried Martens, the Belgian Prime Minister, offered to cut by one third repayments on a $109m government loan to Zaire. He also offered to ease repayment terms for Zaire's $467m commercial debt, which is guaranteed by the Belgian Government.

The rejection appeared to have been prompted by President Mobutu Sese Seko's anger over Belgian press reports suggesting that corruption was endemic in Zaire, and much of the foreign aid went into the pockets of senior government officials.

A little over a week ago Zaire ordered its 15,000 nationals currently living in Belgium to remove themselves and their money from the country by the end of the month. There is little evidence that they are responding to the order. Zaire made similar threats in the 1970s but never carried them out.

Belgian officials were last night hoping that the storm would blow over, pointing to episodes in the past when President Mobutu quarrelled wth Zaire's former colonial power.

The President has proved adept at playing off Belgium, France and the United States – the three countries that have the closest ties with Zaire – hinting that he might forge closer commercial links with France, and making the most of the strategic importance that Washington attaches to Zaire.

President Mobutu has been an important conduit for US assistance to Unita rebels in neighbouring Angola.

President Mobutu himself is in Casablanca, attending the annual Francophone summit, which will give the President the chance to explain the row to President Mitterrand.

Arafat draws line on further concession to US

By Victor Mallet in Geneva

MR YASSIR ARAFAT, leader of the Palestine Liberation Organisation, last night made another appeal for Middle East peace negotiations and made it clear he would make no further concessions to US demands.

"Enough is enough," Mr Arafat told a news conference at the Palais des Nations, the United Nation's European headquarters. "All remaining matters should be discussed around the table and within the international conference."

Israel, meanwhile, fought a lonely battle in Geneva in an attempt to justify its own uncompromising rejection of this week's Palestinian peace overtures. Speaker after speaker in the UN General Assembly had appealed to the Israelis not to miss what many countries regard as a unique opportunity for Middle East peace offered by Mr Arafat.

Mr Arafat, rebuffed by the US and Israel, said he expected the European Community to play a more effective role in promoting peace.

"We want peace," he said. "We want to live in our Palestinian state, and let live." He insisted that the desire for peace was a genuine strategy rather than a temporary tactic to disarm Israel, and reiterated the three points demanded of him by the US – an absolute rejection of terrorism, an acceptance of the rights of all parties in the Middle East conflict, including Israel, to exist in security, and an affirmation of the peace formula embodied in UN Resolution 242.

"Any more talk such as 'the Palestinians should give more' or 'it is not enough' or 'the Palestinians are engaging in a propaganda game and a public relations exercise' will be damaging and counterproductive," Mr Arafat said.

The US, now increasingly isolated because of its hardline approach, had said that the speech by Mr Arafat on Tuesday to the special session of the UN General Assembly in Geneva was still too ambiguous to meet US preconditions for negotiations with the PLO. Gen Vernon Walters, US ambassador to the UN, made no mention of Mr Arafat's speech when he addressed the UN yesterday.

Gen Walters called on Israel to "face up to the need for withdrawal from occupied territories and to the need to accommodate legitimate Palestinian political rights" but also said the Palestinians would "have to accommodate the reality of existence and security needs, and... commit themselves to negotiations with Israel" – apparently ignoring Mr Arafat's appeal to Israel to come to an international peace conference in his Assembly speech on Tuesday.

In Washington, US officials have said Mr Arafat's speech was not clear enough to enable the US to open a direct dialogue with the PLO.

In Cairo, Mr Hosni Mubarak, the Egyptian President, rebuked Mr George Shultz, the US Secretary of State, over his policy towards the Palestinians in rare 15-minute telephone call, the national news agency reported. "Mubarak told the US Secretary that the US must take a more positive and understanding attitude towards the constructive resolutions taken by the PLO in recent weeks," the agency said. Reflecting growing disquiet among moderate Arabs at US intransigence, he said :"I don't know what more can be expected of Arafat."

In Israel itself, even Mr Shimon Peres, the relatively dovish Foreign Minister, told the Knesset, Israel's Parliament, that Mr Arafat's speech was both a disappointment and a "diplomatic failure". At most, it was a rhetorical success, he said. Mr Yitzhak Shamir, the Prime Minister, denounced the speech on Tuesday as "a monumental act of deception".

Mr Vladimir Petrovsky, Soviet Deputy Foreign Minister, said the PLO was a serious and authoritative partner in peace talks. "It is now up to the other side to respond," he said. "We call on everyone to take advantage of the unique chance... to accept the olive branch of peace that has been offered."

Mr Javier Perez de Cuellar, UN Secretary General, who was due to hold a second meeting with Mr Arafat in Geneva last night, said the PLO leader's speech was a new and very important contribution to the peace process. He called for the present diplomatic momentum to be maintained. The European Community welcomed the PLO's moderation.

Israel's specific objections centre on the wording of Mr Arafat's speech. Israeli officials say his condemnation of terrorism is inadequate, because he also refers to the PLO's Cairo declaration of 1985, which allows for the right of Palestinians to resist occupation "by all possible means". Mr Arafat openly supports the year-old Palestinian uprising, in which more than 300 people have been killed.

The Israelis also say that Mr Arafat has never clearly recognised Israel's right to exist. They say his support of UN Resolution 242 – the international peace formula which calls for an Israeli withdrawal from the occupied territories and for security for all states in the region – is coupled with dangerous conditions.

These include the right to self-determination and "national and political rights", a phrase interpreted by Israel as meaning the right of Palestinians to return to their pre-1948 homes in Israel.

Particularly galling for Israel is the PLO demand that East Jerusalem be the capital of a future Palestinian state. Israel has formally annexed East Jerusalem, a holy city for Jews, Christians and Moslems.

Assad talks on feud with Egypt

By Victor Mallet

PRESIDENT Hafez al-Assad of Syria held a second day of talks in Saudi Arabia with King Fahd yesterday, amid increasing expectations that Syria and Egypt might end their long-standing feud with the help of Saudi mediation.

Such reconciliation could pave the way for the readmission of Egypt to the Arab League, allowing Arab states to present a more united front in negotiations with the US over the Israeli-Palestinian conflict. Reports from Riyadh said Saudi leaders were pressing for a summit between Mr Assad and President Hosni Mubarak of Egypt.

Egypt was isolated by fellow-Arab states because of its treaty with Israel in 1979, but most countries have now resumed diplomatic relations. Only Syria, Lebanon and Libya still have no ties with Cairo.

Mr Assad, on a rare foreign visit, arrived in Saudi Arabia on Tuesday. Among those he met this week was Crown Prince Abdullah, who has tried to heal the rift between Mr Assad and his bitter enemy – and Ba'ath socialist rival – President Saddam Hussein of Iraq.

Last week Mr Farouq al-Sharaa, the Syrian Foreign Minister, confirmed that his country's attitude to Egypt had been tempered by Cairo's defiance of Israel and recognition of the Palestinian state recently declared in Algiers.

Lagos debt option

Nigeria's second debt conversion auction, to be held on December 29, will include the option to convert foreign debt into naira debt as well as into equity, a Central Bank official said, Reuter writes from Lagos. He was speaking after the Bank said $30m of debt would be offered at the next auction.

Air workers fired

The administrator of Nigeria Airways dismissed 3,000 workers yesterday, a third of the work force, in a bid to keep the airline operating, AP writes from Lagos. Police with anti-riot gear surrounded the airline's headquarters to block any attacks. The airline reportedly owes more than $1bn to creditors.

Ethiopian harvest

Ethiopia should have a bumper harvest of 7.46m tonnes of food this year, only four years after one of its worst droughts which affected more than 6m people, Reuter reports from Addis Ababa.

Philippine 'torture'

"Consistent and apparently reliable" reports of torture increased when the Philippine Government stepped up its counter-insurgency campaign against Communist rebels, Amnesty International said in a report released in London today, AP reports. The London-based organisation said it knew of no instance of a military or police officer being convicted of a serious human rights offence since Mrs Aquino came to power in 1986.

Iran to allow parties

Iran announced yesterday it would permit approved political parties to operate but warned would-be politicians to learn from the bitter experience of the past, Reuter writes from Nicosia.

Pretoria offers POW swap

By Anthony Robinson in Johannesburg

WITH THAT flair for the theatrical which marks him out from his more pedestrian colleagues, Mr Pik Botha, the South African Foreign Minister, yesterday offered to exchange an Angolan fighter pilot for an Afrikaner sergeant captured in Angola and sent to Cuba for treatment.

The pilot and his MIG-21 fighter crash-landed on Tuesday in a maize field more than 60 miles into Namibia after apparently losing his way and running out of fuel.

Flushed with euphoria after the signature of the Brazzaville Protocol, Mr Botha offered to return the aircraft to Angola and bring the pilot with him when the South African delegation flies to New York next week for the ceremonial signing of the treaties which will bring independence to Namibia and the withdrawal of 50,000 Cuban troops from Angola.

In return he proposed that the Cuban delegation brings Sergeant Johan Papenfus who was captured, badly injured, in southern Angola and airlifted to Cuba for hospital treatment. Pretoria hopes that a highly symbolic prisoner exchange in New York on December 22 would underline South Africa's desire to project itself as a constructive force in the development of southern Africa.

Adamishin makes his mark in Africa

By Anthony Robinson, recently in Brazzaville

WHEN Mr Chester Crocker, the American mediator, made his elegant speech in Brazzaville's Palais du Peuple welcoming the successful conclusion to months of hard diplomatic bargaining aimed at ending Cuban involvement in southern Africa and Namibian independence, he singled out one man for special praise.

That man was Mr Anatoly Adamishin, the Soviet deputy Foreign Minister who was sitting in the front row next to Mr Martti Ahtisaari, the UN's special representative for Namibia, watching with smiling attention the spectacle of Angola, Cuba and South Africa wrapping up one of the Cold War's main proxy conflicts.

Mr Crocker praised him for the "close, practical and effective co-operation with our Soviet counterparts" which had created "a case study of superpower co-operation in the solution of regional problems".

Unlike his US counterpart, Mr Adamishin, who hails from Kiev in the Ukraine, has come lately to African Affairs. In Moscow's highly specialised Ministry of Foreign Affairs he was a European expert with a special affection, like Mr Mikhail Gorbachev himself, for Italy where he was posted in the early 1960s.

So he was somewhat surprised when Foreign Minister Eduard Shevardnadze offered him the African portfolio last year. But he has soon became engrossed in the job. Over the last few months he became a familiar figure in Brazzaville's M'Bamou Palace Hotel walking around the lobby in a safari suit talking to journalists and delegates and discreetly conferring with all sides, including Mr Pik Botha, South Africa's Foreign Minister.

On Tuesday he broke with his customary backstage role and took the microphone to add his own few words to the ceremony. After returning Mr Crocker's compliments and adding a few words in praise of the Soviet-supplied Angolan forces, he proffered a back-handed compliment to the South African delegation by praising "the reasonable position 'finally' taken by the South African delegation".

As Pik Botha made clear in a speech aimed at his "brother-Africans", Pretoria sees the Brazzaville Protocol as a big step forward in its strategy of returning to international respectability by playing a constructive economic and political role in the southern African region as far north as Zaire.

For Moscow a solution to the Angolan civil war signifies ringing down the curtain on an expensive regional conflict. The new Soviet diplomacy in southern Africa can now turn to the seemingly intractable problem of South Africa itself.

For some time now Moscow has been signalling what appears to be a more conciliatory approach, warning that no military solution is in sight and urging all parties to take the path of negotiation.

Mr Adamishin, it seems certain, will be at the heart of this process.

Japanese bank calculates cost of future earthquake

By Ian Rodger in Tokyo

JAPANESE economists and government officials, ever on the lookout for something that might slow the seemingly relentless advance of the Japanese economy, have been reduced to considering the effects of possible acts of God.

The latest effort along these lines is a report by the Tokai Bank, Japan's sixth largest in terms of profits, on the likely economic effects of a big earthquake in the Tokyo area. The report is apposite not only because of last week's terrible quake in Armenia but also because, in the view of some, the Tokyo area is long overdue for a big earthquake.

The last large earthquake in the Tokyo area was the Great Kanto Earthquake of 1923 in which 142,000 people died and the financial loss was equivalent to about 25 per cent of Japan's gross national product.

According to the Tokai Bank, an earthquake of that magnitude in the Tokyo area today would severely disrupt the world economy. It estimates that such a quake would destroy some Y80,000bn (£355bn) worth of property and goods, equivalent to 23 per cent of Japan's gross national product.

Reconstruction of the affected area would cost Y119,000bn, forcing Japan to consume vast amounts of capital at home rather than continuing to invest it in the US. That diversion would, in turn, put strong downward pressure on US securities markets and send US interest rates soaring. Global stagnation would ensue. If such a quake had happened in September, it would have knocked 0.3 per cent off world economic growth, the bank calculates.

It has to be said that the Tokai Bank, based in Nagoya, has something of a vested interest in raising concern about a big earthquake in the Tokyo area. It estimates that one third of Japan's GNP is made in the Tokyo area and says that the danger of an earthquake emphasises the desirability of decentralising government agencies and company head offices to other parts of the country, presumably including Nagoya.

Sri Lankan extremists free 221 from jail

By Mervyn de Silva in Colombo

POLICE AND the army mounted a huge house-to-house search operation in parts of Colombo, the Sri Lankan capital, and its outskirts yesterday in a frantic effort to capture 221 hard-core members of the extremist JVP who staged a spectacular jail-break on Tuesday night from Colombo's maximum- security Magazine Prison.

The prison is less than half a mile from the private residence of President Junius Jayawardene in the city's smartest residential area, Cinnamon Gardens. Diplomats and other residents who heard gunfire at about 8 o'clock at night took it to be the familiar sound of crackers which greet the arrival of presidential candidates at election rallies. The election will be held on Monday.

The firing came from a group of JVP raiders who attacked the prison from the rear, and fought the Air Force personnel guarding the building. While the gun battle was on, JVP supporters in the maximum- security cells used dynamite to blast the walls and escape from a poorly guarded exit. Some were picked up by vans while others escaped by boat. Last month, a JVP break-out was foiled by alert jail guards.

Ten days ago, 30 hard-core rebels were rescued by JVP men dressed in army uniform who walked into Bogambara jail in Kandy, the central province capital.

Tuesday's security lapse has shattered both Government and public morale after nearly a fortnight's calm in Colombo, following a tough anti-rebel army operation in seven districts surrounding the capital.

A low turnout will rob the election of all credibility, while enhancing the chances of Prime Minister Ranasinghe Premadasa, the government candidate. This will allow the JVP to continue the anti-government patriotic war it launched after the India-Sri Lanka peace accord.

Morocco marks return to Africa stage as Françophone summit host

By Francis Ghilès

THE IMPACT of East-West detente on Africa, the continent's foreign debt, and tensions in Chad are on the agenda at this week's Francophone summit which started yesterday, an annual event which brings together France and her former sub-Saharan colonies.

Cultural ties, historical links and trade and aid pacts provide the cement for an association of 40 states – the nearest France gets to the Commonwealth grouping of Britain's ex-colonies. The summit, which traditionally alternates between a French venue and an African capital, is for the first time being held in a country which is a member of the Arab League – Morocco.

More than 20 heads of state, including President François Mitterrand of France, President Houphouet Boigny of the Ivory Coast, one of the continent's veteran leaders, Gen Mobutu Sese Seko, the head of state of Zaire, and Mr Hedi Baccouche, the Tunisian Prime Minister, are the guests of King Hassan in the kingdom's business capital, Casablanca.

The Moroccan monarch's eagerness to host such a gathering marks his country's diplomatic re-entry on to the African stage. Four years ago Morocco walked out of the Organisation of African Unity when it voted to seat the Saharan Arab Democratic Republic, whose Polisario guerrillas have been contesting Morocco's claim to the Western Sahara for more than 15 years.

At the time, senior Moroccans were rather dismissive of the OAU. Since last August, however, negotiations have been under way, under the aegis of Mr Javier Perez de Cuellar, the United Nations Secretary General, to find a solution to this conflict, and King Hassan is keen to project an image of moderation and conciliation.

The Chad conflict traditionally features at such meetings and President Hissene Habre will seek renewed assurance from Mr Mitterrand that France does not intend to cut back its military presence in the country.

Such assurance will be all the more keenly sought after last week's fighting between Chadian soldiers and members of Colonel Gadaffi's Islamic Legion who crossed into Chad from the western Sudanese province of Darfur. The clash could strain diplomatic links between Chad and Libya, restored only last September.

The debt burden, and its impact on development, which affects nearly all African countries present in Casablanca, will also be discussed. The plan to ease the continent's external debt obligations, adopted by the finance ministers of the Group of Seven at last September's IMF meeting, was in part the result of French initiatives.

UK NEWS

Output still high despite fall in consumer demand

By Ralph Atkins, Economics Staff

STRONG OUTPUT growth in British manufacturing industry showed few signs of abating in October despite high interest rates, according to official figures yesterday.

The Central Statistical Office (CSO) said manufacturing output was growing at an annual rate of about 7 per cent during the month. It was the 17th consecutive month in which the growth rate has exceeded 5.5 per cent.

The strength of output provided some comforting news for the Government.

It suggests that while consumer demand may be showing signs of cooling, manufacturing production growth remains firm.

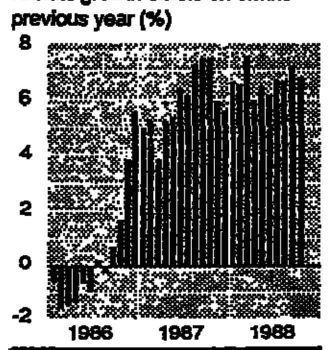
However, it is probably too early to see what effect the steep rise in interest rates during the summer will have on industry.

Figures for the three months to October – which give the best guide to the long-run trend – show manufacturing output was 2.3 per cent higher than the previous three months. Compared with the corresponding three months a year earlier, it was 6.8 per cent higher.

CSO statisticians said their best estimate of the underlying trend continues to be an annual growth rate of 7 per cent.

Manufacturing output

Annual growth 3mths on 3mths previous year (%)



Ms Evelyn Brodie, economist at Morgan Grenfell, UK merchant banking group, said financial markets were hoping for a slowdown in domestic demand – not output growth.

"We would not be unhappy if gross domestic product continued to be strong. It is the split between domestic demand and the trade account which is where the concern lies," she said.

October's figures show a small rise of 0.2 per cent in manufacturing output compared with September. Figures published last month had shown a fall in September but yesterday's numbers show this has been revised to show a slight rise.

The CSO said the fastest growing sector of manufacturing in the past year has been electrical and instrument engineering. In the three months to October, output in this category was 15.3 per cent higher than the corresponding period a year before.

The figures show energy output fell by 3.1 per cent in the three months to October because of the fire on the Piper Alpha oil platform in the North Sea. Compared with the corresponding period a year before, production was 5 per cent lower.

The output of all production industries, including energy and manufacturing, grew by 0.7 per cent in the three months to October compared with the previous three months.

Compared with the corresponding period a year earlier, output was 3.2 per cent higher.

The CSO's index of manufacturing output, seasonally-adjusted, stood at 116.6 (1985=100) in October compared with 116.4 in September. The index of output of all production industries, seasonally-adjusted, was at 111.1 (1985=100) compared with 111.4.

Art treasures deteriorating 'for want of supervision'

By Antony Thorncroft

ART TREASURES in Britain's museums are deteriorating because of inadequate supervision, according to a report published yesterday by a House of Commons Committee of Public Accounts into the Management of the Collections of the English National Museums and Galleries.

Significant areas of collections were deteriorating steadily, the report said. In other areas the condition of exhibits was, at best, being contained or only slowly improving."

The directors of two of the largest museums, Sir David Wilson of the British Museum and Mrs Elizabeth Esteve-Coll of the Victoria and Albert (V&A), were interviewed by the MPs, and they maintained that inadequate Government funding meant that vital curatorial posts were left vacant.

Neither museum director could swear to knowing all the objects they had in their care – 7m between them – and they were often stored in "cramped, chaotic and over-crowded conditions which led to deterioration and decay."

The V&A was worried about its 100,000 prints and drawings which, given current staffing levels, would require 200 years' work to ensure their adequate preservation.

"Lack of proper records means that curators do not know if objects have been stolen," said Mr Robert Sheldon, who chaired the committee.

He condemned the "lack of proper computerisation, analysis, investigation and keeping of records. They do not know what they have got in many cases. These are objects which should be preserved for future generations and they are not being looked after properly."

The committee's report will be greatly welcomed by the nation's museums. They feel that they have been badly under-funded by the Government in recent years.

In particular, their purchase grants for new acquisitions have been frozen for eight years, and the Trustees of the leading museums, in a form of privatisation, are currently being asked to take over responsibility for their buildings, without guarantees of adequate future funding.

London's Victoria and Albert Museum: exhibits stored in cramped, over-crowded and chaotic conditions

British group launches trucks offensive

The London Cabinet War Rooms, where Winston Churchill prepared his Second World War strategies, was chosen this week as the arena in which to announce a commercial offensive on Daimler-Benz, the world's largest truck maker, John Griffiths writes.

Mr David Brown, chairman of AWD trucks, who created the company out of the former Bedford Trucks operations bought from General Motors of the US a year ago, declared that he would:

● Increase truck production from AWD's Dunstable, Bedfordshire, site from 6,000 this year to 7,500 in 1989, then double output to 15,000 by the mid-1990s.

During this time employment at Dunstable would rise from 1,100 to more than 2,000.

● Triple sales of civilian trucks - the first of which were launched in the summer - to 3,000 in 1989.

● Launch a four-wheel-drive, 4-tonne military truck irrespective of whether AWD wins a Ministry of Defence order for at least 6,000 such trucks.

"We'll produce it first and find plenty of markets for it later, Mr Brown said."

● Establish a European distribution network for civilian trucks by the end of next year.

Mr Brown said that through that network, AWD would sell premium tractor units "with technology which Daimler-Benz may get around to providing in about 10 years' time."

These would be part of a full range which eventually "will compete in every market and in every sector against Daimler-Benz."

Meanwhile, AWD has shelved plans to sell off part of the Dunstable site for an expected £20m.

Despite having injected £10m into product development alone since buying Bedford, it did not need the cash to develop the business, said Mr Brown.

AWD, which is part of a group of companies owned by Mr Brown, is expected to have a turnover of around £120m this year and make just over £1m in profits, after years of heavy losses under GM ownership.

Group turnover would be £200m, he said, with profits of about £10m.

So far Mr Brown, a North of England entrepreneur, has confounded the sceptics who predicted that AWD would quickly fail.

But the audacity of his stated intentions is inevitably raising new questions in the industry.

While making clear he knows that his forecasts will readily be held against him, he predicts that AWD will give truck operators "features over the next few years they never dreamed of having".

Life groups prepare for commission rates fight

THE UK's life assurance industry faces the prospect of a commissions war next year between companies fighting for new business, after proposals by the Securities and Investments Board on the disclosure of marketing costs, Nick Bunker and Eric Short write.

The SIB's proposals were published yesterday and look likely to bring to a head a fierce debate about the industry's future which began after the passage of the Financial Services Act two years ago.

Norwich Union, one of the UK's largest mutual life insurers, said the proposals would help hasten a dramatic contraction in the number of independent intermediaries selling life assurance.

Another widely-held view is that they could contribute to a far-reaching rationalisation of the industry if the mutual life insurers which rely on independent financial advisers find their distribution channels drying up and seek mergers to gain economies of scale.

At the heart of the SIB's proposals lies a decision to apply harsher disclosure requirements to independent financial advisers than to sales representatives tied to just one insurance company or unit trust group.

Six months ago Lord Young, Trade and Industry Secretary decided that the SIB had to abolish the Maximum Commissions Agreement (MCA), which the SIB and the insurance industry had devised to soften the disclosure of commissions required from insurers under the Financial Services Act.

Mr David Walker, SIB chairman, said yesterday he accepted that the demise of the MCA meant that life companies would bid up commission rates, but this would be only a short-term effect. "With the removal of price controls there is always a market adjustment," he said.

The SIB said that with effect from January 1 1990, commission rates paid to independent advisers will have to disclosed to customers as a percentage of premiums.

The disclosure will be made via a letter sent to the customer by the insurance company within 14 days of receiving an application form.

In the case of tied representatives, the customer will get a statement of the extent to which premiums are eaten up by life company charges and expenses.

SIB has rejected a proposal in a report commissioned from Peat Marwick McLintock, the accountancy firm, that the effect of charges and expenses should be expressed as a reduction in expected investment returns. *Instead, they will be* shown as a proportion of premiums.

Vigorously defending the proposals, Mr Walker said they would bring "more emphasis on transparency. I do not believe that they will lead to the demise of the independent financial adviser."

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Bank plans buy-back of gilts

By Simon Holberton, Economics Staff

MR NIGEL LAWSON, the Chancellor of the Exchequer, yesterday took the City of London by surprise when he announced that the Bank of England would conduct an unprecedented experiment in buying back gilt-edged (Government) securities.

The Chancellor, who took the unusual step of making the announcement personally, told a lunch at the Stock Exchange that the Bank would conduct a "reverse gilt-edged auction" for £500m of gilts on January 13.

"With the public sector debt repayment for 1988-89 forecast at £9.8bn, some further buying in of gilt-edged securities this year is required," Mr Lawson said.

As he addressed the gathering, the Bank published summary details of the proposal. The novel way of reducing the national debt was greeted with stunned surprise by the gilts market. It soon responded favourably to the idea, however, and prices for gilts rose strongly across all maturities.

The Bank said it invited applications from holders of the 10 per cent Exchequer Stock of 1989 and the 11 per cent Exchequer Stock of 1989 to sell all or part of their holding back to the Government. In total, there are £4.4bn of these securities outstanding.

It will accept offers up to 10 am on Friday January 13. The Bank said the successful applications would be those at and below the highest accepted price. Analysts said this would ensure that the Bank bought the stock back in the most cost effective way for the Government.

The Bank said the reverse auction was simply an addition to its techniques for managing the gilts market and analysts welcomed the move. Mr Glenn Davies, of CL-Alexanders Laing & Cruickshank, said: "Anything that makes the Bank's attitude to the market less opaque is to be welcomed."

The timing of the auction coincides with the corporate tax paying season. The Bank said that the release of £500m into money markets through the Bank's purchase of gilts would help in part to ease shortages that were anticipated.

Mr John Shepperd of Warburg Securities said: "It would probably be wrong to see the reverse auction simply as a technical response to seasonal money market pressures. It should be viewed as an experiment which, if successful, will lead to the reverse auction becoming a regular part of the gilt market scene."

The Treasury said the Chancellor was particularly keen on the idea. Mr Lawson was eager to see that it worked and the Treasury was sure that it would, an official said.

The Bank said the January reverse auction would be the only one to be held during the 1988-89 financial year. If it was successful, further auctions would be considered in the 1989-90 year.

Over the past year, the Bank's operations in the gilts market have moved through 180 degrees from being a seller of Government debt to becoming a large scale buyer of that debt. It was only in late October that the Government suspended formally its plans to sell gilts in January.

In his Autumn Statement, Mr Lawson increased his forecast for the public sector debt repayment from £3bn for this year to nearly £10bn. The Government's chosen way of neutralising this contractionary effect on the economy is to buy back debt and thereby return liquidity into the economy.

However, many economists believe that Mr Lawson has been too cautious in his estimate of the PSDR this year.

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Government reluctant to press charges against Ryan in Ireland

King calls for review of Irish law

By Kieran Cooke in Belfast and Philip Stephens in London

YESTERDAY'S six-hour meeting of the Anglo-Irish Conference in Belfast revealed the extent of British anger and frustration with Irish extradition policies following Dublin's refusal to extradite Mr Patrick Ryan to answer charges of terrorist involvement.

Mr Tom King, Northern Ireland Secretary, said the only people to benefit from the present difficulties in extradition arrangements between the Republic of Ireland and Britain were terrorists. He called on the Dublin Government to make a thorough review of its extradition procedures.

Mr King's formal request for a review of the 1987 extradition law came as the London Government signalled its reluctance to press charges against Mr Ryan in the Irish Republic.

Mr Patrick Mayhew, the Attorney General, said proceedings in the Republic under the 1976 Criminal Law Jurisdiction Act had not been "absolutely excluded," but he listed a series of major obstacles to such a course.

Responding to a renewed call from the opposition Labour Party that he should seek to bring Mr Ryan before the Irish courts, Mr Mayhew said there were grave anxieties about the potential threat to witnesses.

In any event, witnesses could not be compelled to attend hearings in the Irish courts, while two of the four charges against Mr Ryan could not be tried in the Republic.

Mr Mayhew, who is expected to announce his decision within the next few days, also argued that if the remaining charges failed for insufficiency of evidence, that would rule out any future proceedings in British courts.

Government officials insisted last night that no firm decision had been taken. There would be some advantages to a trial in the Republic if witnesses could be persuaded to travel there and their security could be guaranteed.

But the officials agreed that the balance of argument at the moment suggested Mr Mayhew would probably decide against action in the Irish courts.

Most of the meeting of the Ango-Irish conference, attended by Mr King and Mr Brian Lenihan, Irish Minister for Foreign Affairs, was taken up with the growing political storm surrounding the Ryan case.

Mr King said the implications of the Irish decision were very serious. "This, perhaps more than any previous conference meeting, was an occasion for blunt speaking," said Mr King.

The Northern Ireland Secretary said he had told Mr Lenihan that the Irish claim that Mr Ryan would not receive a fair trial in Britain was "totally unacceptable."

Mr King said the grounds identified by the Irish Attorney General for rejecting the British request went far beyond those contained in present Irish extradition procedures.

"We now have a situation where both Attorney Generals believe there is a case which should be heard in court but where the person concerned is at liberty," said Mr King.

Mr King said the Ryan case had not helped Anglo-Irish relations but said the necessity for the Anglo-Irish Agreement and Conference meetings was all the more vital in the present circumstances. Extradition was a key element in the fight against terrorism, he said.

Mr Lenihan told Mr King the Ryan case was a unique one and repeated that the Irish Attorney General's decision did not constitute a view on the general system of justice in Britain.

But the gulf between British and Irish views on extradition is clearly very wide. Yesterday Mr Charles Haughey, Irish Prime Minister, was given a standing ovation in the Dail, Ireland's Parliament, for his handling of the Ryan extradition case.

Lloyd's members to seek loss settlement

By Nick Bunker

MORE THAN 200 members of a Lloyd's insurance syndicate which faces losses of £80m voted overwhelmingly yesterday to seek reimbursement of the money from the syndicate's former managers and about 30 other companies in the Lloyd's market.

If no settlement is reached, *the members say they will sue* for the money on the grounds that the syndicate was mismanaged and that the agents which recommended they join it failed to make proper inquiries beforehand.

The 200 people were members in 1984 of non-marine syndicate 553, which was run by Mr Cyril Warrilow and managed by CJW, underwriting agents. People who belonged to the syndicate in 1984 face big losses arising from US liability insurance policies sold by Mr Warrilow in the early to mid-1980s.

Yesterday's vote was taken at a meeting convened in London by the Warrilow Steering Committee, chaired by Mr Tom Benyon, a former Member of Parliament. The committee is organising action on behalf of many of the 1,452 people who belonged to the syndicate in 1984.

The meeting was given reports by solicitors Elborne Mitchell and Peat Marwick McLintock, accountants, alleging that in the early to mid-1980s the syndicate was under-reserved, over-expansionist and inadequately managed.

The main thrust of any litigation is likely to be against 30 Lloyd's underwriting agencies, including Donner Underwriting Agencies and Osborne Bell, which recommended people to join the syndicate.

According to Mr Benyon, the members could recover the money from errors and omissions insurance policies held by the underwriting agencies. "We have our spies, and we believe we know how much coverage they have to the last penny," Mr Benyon said.

There were strong criticisms from the floor of a report on the losses produced by a committee representing the 30 agencies. The report was "wishy-washy and shilly-shallying," one member of the syndicate said.

Mr Benyon said the costs of litigation by members would probably be less than £1,000 each and they had a "60 per cent chance" of recovering many times that amount.

He said the steering committee did not recommend trying to sue the central authorities of Lloyd's for failing to intervene in 553's affairs, because of the 1982 Lloyd's Act, which gave the market's ruling council immunity from lawsuits.

Bulk Transport sale could aid bid for Harland

By Kevin Brown, Transport Correspondent

PART OF the proceeds of the sale of Bulk Transport, a London-based shipping company, to Norway's Bergesen group, could be used to finance the purchase of Harland and Wolff, state-owned Belfast shipyard, it emerged yesterday.

The proposal, which is being taken seriously by ministers, could provide the Government with a credible alternative to a proposed management and employee buy-out (MEBO) headed by Mr John Parker, Harland's managing director.

Bulk Transport emerged as a bidder for Harland soon after the announcement of Government privatisation proposals in July, but its bid appeared to have lapsed after Bergesen's hostile $126m takeover.

However, representatives of at least one former shareholder are understood to have told officials in the Northern Ireland Office that part of the proceeds of the Bergesen deal could be used to support a takeover of Harland.

The Government is offering to write off Harland's accumulated losses of just under £400m, cover future losses on outstanding contracts, and help finance redundancy costs. However, potential purchasers would have to demonstrate the financial strength to cover losses on new orders.

Mr Eddie Pollock, chief executive of Bulk Transport, masterminded his company's bid for Harland in the belief that the company could make large savings by building oil tankers in its own shipyard.

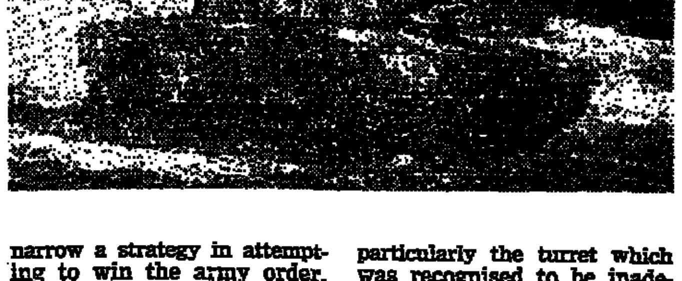
The three main groups of shareholders in Bulk Transport are Fidelity Investments of Boston; New York interests headed by Mr Jim Tisch; and Xenel, a company controlled by Mr Hisham Alireza, a Saudi Arabian businessman.

The US shareholders were thought unlikely to be interested in supporting the bid for Harland. Mr Alireza is understood to have supported the original Bulk Transport bid.

The proposed deal is thought to be attractive to ministers because it would be accompanied by at least one order for a large crude carrier. Harland was once famous for building such ships, but none have been built in Belfast in recent years because of tough competition from the Far East.

Britain seeks a new Centurion

Lynton McLain on a search for the ideal tank – one that works



ONLY ONE criterion lies behind the controversy over the £1bn-plus order shortly to be placed by the Government to replace 600 Chieftain tanks. The argument is not about different types of gun or engine. It is about buying a tank that works.

The army and the Government want a main battle tank which is reliable, easy to maintain and operate, and is accurate. They are not prepared to put up with vague promises that the Abrams tank planned by General Dynamics of the US, the Challenger II offered by Britain's Vickers, or the West German Leopard tank will be all right on delivery day, sometime in the early 1990s.

This sounds unremarkable, except that every British main battle tank since the 1950s has had problems. Each was designed and made in Britain. No tank since the Centurion has worked properly or with as high a performance as alternative tanks used by Britain's allies.

A cabinet committee headed by Mrs Margaret Thatcher, UK Prime Minister, is considering which tank to order and plans to reach a decision before the end of the year. It is due to meet today.

Senior managers in UK companies dependent on Vickers, Britain's only tank maker, said that Vickers had opted for too narrow a strategy in attempting to win the army order. Vickers had put the Government in a "take it or leave it" position by opting only for the "low risk" solution to update Challenger, the current battle tank, without offering the Government other UK options.

Vickers, some of these companies said, should have given a range of choices, including features – such as a smooth-bore gun – comparable to those offered on the competing tanks.

Mr Les Tyler, project manager on Challenger II, said: "There was no way Vickers could invest in something that was totally new, and this would not have been acceptable to the MoD (the Ministry of Defence)."

However, the proposed new tank would involve substantial revamping of the Challenger I, particularly the turret which was recognised to be inadequate and is being completely re-designed.

Mr Douglas Cooke, manufacturing director of Vickers Defence Systems in Leeds, acknowledged that the planned Challenger II was a "low technical risk."

British tanks are no longer the world force they were. The Centurion was Britain's most successful main battle tank. A total of 3,829 were made, of which more than half were exported.

Conqueror, its successor, entered service with an electrical system which was never perfected, and was also difficult to maintain.

The Chieftain, which came next, also had problems. About 900 were built for the army out of a total production of 2,265, with the remainder exported to Iran and Kuwait. The Chieftain had serious problems with its engine, which led to a series of critical parliamentary reports in the late 1970s.

Despite this, the late Shah of Iran placed the largest export order ever for main battle tanks in 1974 when he ordered 125 Shir I tanks and 1,225 Shir II tanks from Royal Ordnance, the formerly state-owned arms and munitions manufacturer which was privatised in 1986.

The Shir I was based on later production versions of Chieftain. The production of the Shir I was under way when the downfall of the Shah in 1979 led to the cancellation of the contract.

The Government seized on the development work done on the Shir I and II to make Challenger. The result was a compromise tank designed for the Iranian desert but modified for the plains of Europe. Vickers is still delivering the last of these tanks to the British army.

Crews dislike the inside of the tank, however, and the Challenger is slow to acquire targets and hit them.

Vickers says that although the existing Challenger and its equipment were not tailor-made for the British army, the proposed Challenger II would fully meet the army's requirements and that the new systems it wants to put into Challenger II are tried and tested.

Community not yet ready for common currency, say Lords

By Peter Norman, Economics Correspondent

THE EUROPEAN Community is not yet ready for a common currency, a House of Lords committee has said.

In a report on EC plans to create a "European financial area", the Lords' select committee on the European Communities said a common currency would require further political development of the Community as well as a greater degree of economic convergence than at present.

It said that a monetary union would force the EC to spend far more on regional aid for depressed regions than is currently available. Otherwise such areas would have no means of offsetting economic decline.

The committee said that Britain should take any early opportunity to join the exchange rate mechanism (ERM) of the European Monetary System and so be in a stronger position to exercise leadership on monetary policy. But it acknowledged that Britain's current account balance of payments deficit and rising inflation made entry into the ERM more difficult than it would have been two years ago.

The committee appealed to politicians not to use rhetoric focusing on goals such as a common currency or a European central bank because this could create "needless divisions" in the EC.

The committee's report is based on evidence gathered over the summer, when strong political support was voiced in France, West Germany and Italy for a speedy move towards monetary union in the EC. Since then, however, the Delors Committee of central bank governors and outside experts which is investigating the concrete steps that should be taken towards union has indicated that further economic intergration should have precedence over monetary union.

Despite the Lords' cautious approach to monetary union, the committee strongly supports more stable exchange rates and greater monetary co-operation among the 12 members of the EC.

But it said that it is up to the member states to make the key decision about how much national autonomy they should yield. "In the field of monetary policy, there is no need for the member states to be presented with the harsh choice of full monetary union or nothing," the report said.

Echoing the British Government's view, the committee said that arguments about the final goals of monetary policy should not prevent the EC from finding agreement on practical steps forward. It said that increased private sector use of the European Currency Unit could have considerable commercial advantages.

Looking ahead to 1992, the committee gave a warning that the benefits of liberalisation to the EC's internal market would be lessened if community insistence on comprehensive reciprocity for EC banks in third countries prevents outside interests from competing within the community. It also argued that there is little need for the Community to force the harmonisation of company taxation.

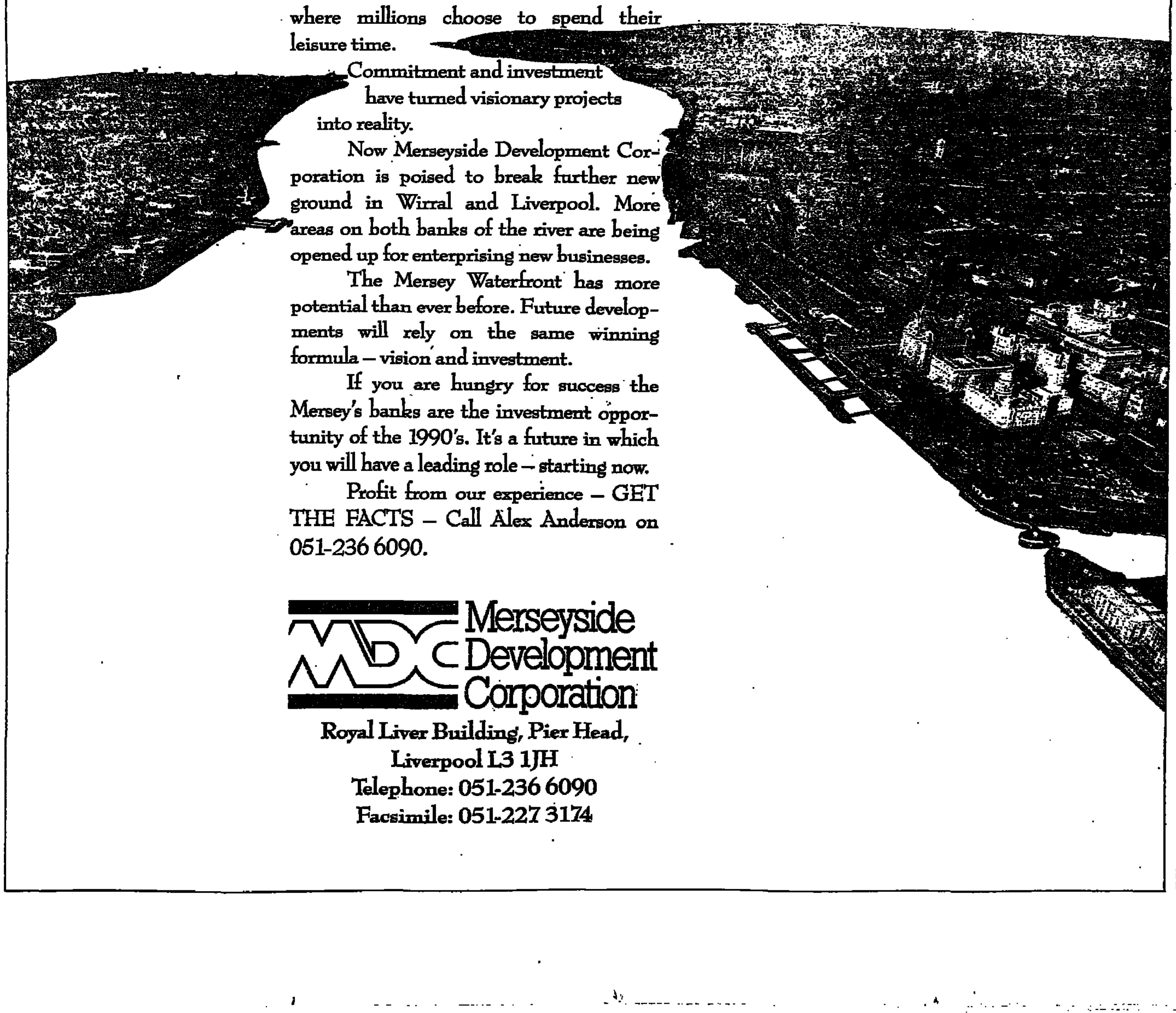
Egg demand 'down 50%'

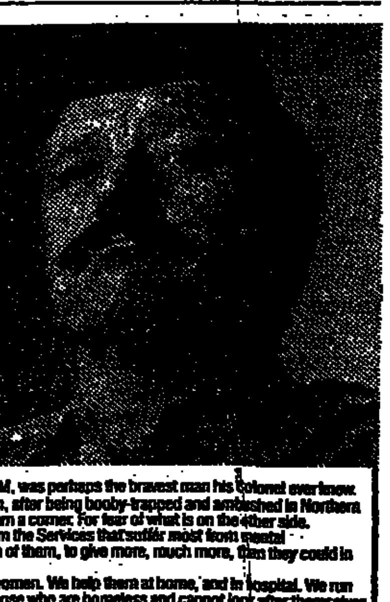
DEMAND for fresh eggs in *Britain has fallen by 50 per* cent over the last nine days and is already endangering the livelihood of several smaller egg producers, the National Farmers Union said yesterday.

Mr John Kerr, head of the NFU's livestock department, attributed the sharp fall in eggs sales directly to remarks made by Mrs Edwina Currie, junior health minister on December 2, that most of the country's egg production was *affected by salmonella.*

Before then, public concern about the dangers to health of salmonella in eggs had begun to affect the market but sales had fallen by an average of only 10 per cent.

Yesterday, the Government announced a £500,000 advertising campaign to stem worries and confusion over the dangers of salmonella.





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TECHNOLOGY

A commercial breakthrough for the sun

Clive Cookson examines why solar power is fast becoming a viable alternative energy source

Photovoltaic cells which convert sunlight directly to electricity have become dramatically cheaper and more efficient within the past four years. Experts predict that during the 1990s their cost will fall to the point where they will be used commercially to generate electricity on a large scale.

Because some exaggerated claims were made for solar power during the 1970s – and because alternative energy sources have been out of fashion during the 1980s as a result of cheap and plentiful supplies of oil, gas and coal – many policy-makers and business people do not realise how much progress has been made in photovoltaic technology since 1985.

"Photovoltaic cells are already commercially viable for many applications," says Tomas Markvart, of Southampton University's engineering materials laboratory. "It is now a question of converting public opinion."

Even in cloudy Britain, photovoltaic cells are surprisingly competitive. Professor Bob Hill, of Newcastle Polytechnic, says: "If you want to install lighting in a shed at the bottom of your garden, it is actually cheaper to put up a solar panel with a rechargeable battery than to pay an electrician to lay a cable from the mains to the shed."

World production of photovoltaic cells has increased tenfold since 1980, according to IT Power, the leading UK solar energy consultancy. Over the same period, the average price has fallen from $17 to $4 per watt. This year's output will have a total capacity of 35 megawatts (MW), worth $175m (£96m).

About 30 per cent of the world's photovoltaic production consists of small cells for consumer products, such as solar-powered calculators and garden lights.

The remaining 70 per cent is used for larger solar panels to generate electricity in places where mains power is unavailable. Rechargeable batteries store the energy for use when the sun is not shining.

The range of solar-powered equipment runs from boats and isolated telecommunications stations in developed countries to water pumps and refrigerators in the Third World. Solar panels for satellites are a special category; they have to be hardened to resist damage by radiation and extremes of temperature.

In the future, the market will depend on how quickly the price of photovoltaics falls in relation to other energy sources. If the average price comes down to $1.50 per watt by the year 2000, as many experts predict, then total production could increase more than a hundredfold and world sales would be worth $7.5bn a year, according to IT Power. On the pessimistic assumption that the price falls no lower than $3 per watt, production is projected to increase tenfold by the end of the century.

Technical progress in photovoltaics over the last four years has taken place on two broad fronts: increasing the efficiency with which solar cells convert sunlight to electricity and reducing manufacturing costs. Academic and corporate laboratories in the US, Europe, Japan and Australia are involved.

"Most of the new ideas stem from progress in silicon chip technology," says Markvart. Materials and production methods for photovoltaic cells are similar to those used by the semiconductor industry for making computer chips.

Earlier this year US researchers at Sandia National Laboratories made a complex experimental cell, combining silicon and gallium arsenide technologies, which converts 31 per cent of the energy in sunlight to electricity.

As recently as the mid-1970s physicists said that photovoltaic cells made from silicon could not operate with more than 20 per cent efficiency. Yet research groups at Stanford University in California and the University of New South Wales in Australia have now made silicon cells which operate at almost 30 per cent efficiency, by using ingenious techniques to trap as much as of the incoming light as possible.

Hill predicts that "within a couple of years, researchers in the US and Europe will develop cells with efficiencies of 35 per cent. That will be an important symbolic milestone, because it exceeds the average operating efficiency of coal-fired power stations." According to Markvart, "there is no fundamental reason why ultimately solar cell efficiency could not exceed 60 per cent."

These high efficiency cells operate best under very high levels of illumination – hundreds of times brighter than direct sunshine – and they require a system of lenses to focus light on to their surface. Several years of development work will be required to bring them into commercial production.

Meanwhile the most successful specialist photovoltaic company, Chronar of the US, continues to push down manufacturing costs. Its five factories – in the US, France, Yugoslavia, China and Bridgend in South Wales – account for about a third of the world's photovoltaic production capacity.

Chronar is now building in California the first of a planned series of much larger automated factories, each making 10 MW a year of solar panels. Their production will be required for the world's most ambitious solar project, a 50 MW photovoltaic power station which Chronar and SeaWest Industries (a wind energy company) plan to build in Southern California. The plant is due to be completed by 1992 at a total cost of $125m – only $2.50 per watt for the entire system.

Southern California Edison, the local utility, will buy its electricity at the favourable rates offered to suppliers who use renewable energy sources (about 12 cents per kilowatt-hour), but this is likely to be about twice as expensive as unsubsidised electricity from conventional power stations.

All Chronar cells are made from "hydrogenated amorphous silicon", the same material as that used by Japanese electronics companies for solar-powered calculators. This is a non-crystalline form of silicon, laid down in very thin films, 0.3 microns (millionths of a metre) thick, by breaking down silicon-hydrogen compounds – known as silanes – with an electrical discharge.

The other leading manufacturers of large solar panels – subsidiaries of the oil companies, BP of the UK and Arco and Amoco of the US – use a quite different approach, based on slicing up crystalline silicon.

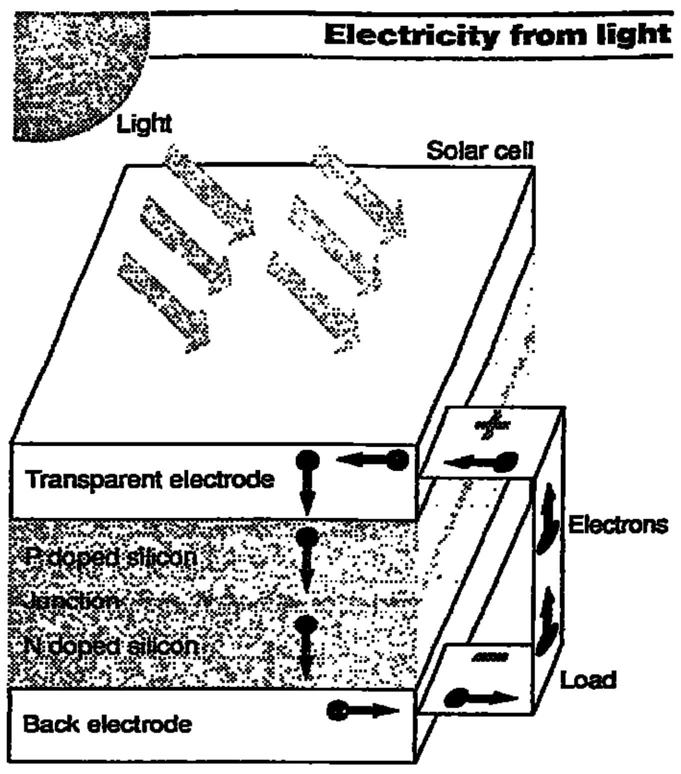
Amorphous silicon cells convert light to electricity with no more than 6 per cent efficiency. That is only half the efficiency level of crystalline silicon. But advocates of amorphous silicon say that the lower manufacturing costs, made possible by the techniques of thin film deposition, more than compensate for its reduced efficiency.

Silicon in its various forms is well entrenched as the favourite photovoltaic material, partly because its properties are so well understood from computer chip manufacturing. But researchers are experimenting with other semiconductors which may be better suited to solar cells. BP Solar is concentrating on cadmium ditelluride, while Arco Solar focuses on copper indium diselenide.

Enthusiasts say that photovoltaic research is making such rapid progress that direct solar power could become the world's main energy source during the next century. Solar electricity would be used to break down water into oxygen and hydrogen, which would replace fossil fuels in most forms of transport.

For people such as Anthony Derrick of IT Power, however, such futuristic ideas are a distraction. "What matters is that we get across to people the fact that solar power is the cheapest, most reliable and most practical solution in many places today."

Electricity from light



Light can cause a flow of electrons – an electric current – in certain semiconducting materials when they are connected via two electrodes to an external circuit.

The semiconductor in a photovoltaic cell has two separate layers with an energy gap that corresponds to the energy of the photons (light particles) in sunlight. The voltage and current are created at the junction between the layers.

In a cell made from silicon, this is achieved by adding different types of impurity to the two layers. The upper layer consists of P (or positive) doped silicon and the lower is N (negative) doped silicon.

On top of the cell is a transparent electrode – for example, a very thin layer of tin oxide – which lets the light through to the silicon. The bottom electrode is typically made of aluminium.

WORTH WATCHING

Edited by Geoffrey Charlish

Making heat and power on site

COMBINED Energy Products (CEP), a new London company set up with the assistance of the venture capital group 3i, is offering a service by which relatively small organisations can enjoy the benefits of combined heat and power (CHP), without the capital expenditure associated with such schemes.

The original idea of CHP was to use the heat that is normally wasted in power stations by piping it to local industry and housing. CEP is scaling down the concept to company and site level and is particularly interested in the 300 landfill sites in the UK, where methane is being generated by waste materials and is available at low cost.

CEP will put the necessary equipment on to a site to generate electricity in the 100kw to 500kw range. It will sell the resulting electricity and heat to the "host" company at prices significantly less than those that would be paid if energy were bought from the local boards. CEP would pay agreed sums for the methane to the supplier, often a local council (which otherwise has the cost of safe disposal).

The company believes that it will be able to supply cheaper base load electricity in this way, with the host company continuing to buy from boards for its peak demands.

Cheap methane is not a prerequisite. CEP is convinced that in hospitals and hotels, for example, diesel generation packages (which it can supply) will still be cost effective. If these organisations financed such schemes themselves, they would have to find between £50,000 and £75,000.

Radiation guides a coal cutter

A COAL thickness indicator (CTI), developed in the UK by Salford Electrical Instruments, a subsidiary of the General Electric Company, is undergoing trials in 10 pits in the US.

If these prove successful, a potentially large market could open up for the microprocessor-controlled device, since there are 110 long-wall coal faces in America where the instrument would be useful.

The CTI uses the low natural gamma radiation of rocks and shales, which contrasts with the relatively high level of coal, to generate a display for the guidance of the coal-cutting machinery operator. The US trials follow successful installation of instruments in a number of pits in the UK, where they have been shown to enhance both coal quality and productivity.

A way to spot computer viruses

GETTING rid of a computer virus, which is a program or series of instructions which have been maliciously introduced to subvert a computer's activity, can be a tedious task.

Large numbers of diskettes have to be checked to try to find the one carrying the virus. Although only one per cent might be infected at the time of an outbreak, the problem is to make sure the offending disk is found within a mass of clean ones.

S & S Enterprises, of Chesham in the UK, says it has dealt with a "distressingly large number of infected sites."

Based on its experience, it has put together a machine that checks up to 700 diskettes per hour. The associated software can detect most of the viruses in use and can be extended to cover new ones as they emerge.

For easy transportation around computing work areas, the machine is mounted on a trolley.

Plastic manhole cover advances

IS IT necessary for a manhole cover be made of cast iron to be strong and serviceable?

Pressed steel has been tried with limited success but Fibresec, of West Yorkshire, has adopted a composite plastic material. It claims that the covers are both sufficiently strong and a great deal lighter than most metal ones.

The covers were initially designed for use on petrol station forecourts, where the removal of heavy tank and service covers has produced back injuries among forecourt staff, drivers and fire officers.

The new Fibrelite covers have only 60 per cent of the weight of their metal equivalents and are easily removed and handled. Fibresec now plans to exploit other markets in Europe and the US.

The electronic tyre gauge

THE HUMBLE tyre gauge has gone electronic, which will please people who have difficulty reading the tiny numbers engraved on the rods attached to pencil-sized cylinders, which must be pushed on to the tyre valve.

Dial gauges were a step in the right direction, but the latest unit, the Sonic Aircheck, has no moving parts.

Powered by a long-life lithium battery, the device senses the tyre pressure electronically. It is pushed on to the valve, a button is pressed and the device is removed after "beeps" from a miniature loudspeaker.

The measurement remains visible on a quarter-inch-high liquid crystal display for about 15 seconds, after which the unit switches itself off. The range is 0 to 150 lb/sq in and the claimed accuracy is 1 lb/sq in.

Priced at about £20, the unit is made in Hong Kong and the UK agent is Sonic Tape of Maidenhead.

A 'softer' diesel engine

PERKINS ENGINES, of Peterborough in the UK, is using a two-stage fuel injector for its latest two-litre Prima diesel engine.

Made by Lucas Diesel Systems, the injectors cut engine noise and exhaust emissions, particularly at town driving speeds. A priming injection, followed millionths of a second later by the main injection, gives "softer" combustion.

CONTACTS: Combined Energy Products: London, 993 7711. Salford Electrical Instruments: UK, 0706 67501. S & S Enterprises: UK, 0494 791900. Fibresec: UK, 0943 467044. Sonic Tape: UK,0628 07912. Perkins Engines: UK, 0733 67474.

LAW AND SOCIETY

Archaic law of defamation is in need of reform

By David A. Anderson and Basil S. Markesinis

Rock singer Elton John, it was announced on Monday, settled his libel action against The Sun. The newspaper admitted that the stories printed about him were untrue. He will get £1m in damages. This confirms the sharply rising trend in libel damages. A series of recent libel trials ended with damage awards can be so high that they amount to a windfall for the plaintiff; and can no longer be dismissed by the newspapers concerned as an expense reasonably incurred for attracting more readers.

Recent UK awards include £500,000 to Mr Jeffrey Archer, £450,000 to former Royal Navy Officer Martin Packard, £310,000 to the solicitors Fox and Gibbons, and £300,000 to actress Koo Stark. These awards are often larger than many made in serious personal injury cases, and this can be partly explained by the rule that libel damages need not be limited to actual, proved loss. This rule, designed to spare individuals the difficulty of proving actual damage to their reputations, has even been extended to legal entities such as corporations, unions, and governmental authorities. Awards that can be excessive for natural persons can become grotesque in the case of legal entities.

The rising awards reinforce the present law's oppressive effect on free public debate of important public issues. It fails to draw a sufficiently sharp distinction between reporting about an individual's private life (such as sexual matters) and reporting about politics, business, education, health, and other matters that legitimately concern the public. The law's failure to exempt from the strictures of libel laws serious reporting leaves it at a disadvantage when compared with the commercially more attractive sensationalism.

In 1968 Lord Diplock said the law of defamation had "passed beyond redemption by the courts". Proposals for reform through committees have also failed to redeem it. The law remains archaic, unfair, defective, and oppressive.

It is archaic because it clings to ancient rules such as the distinction between libel (written or other permanent forms of expression) and slander (oral defamation). These rules evolved from battles between the Ecclesiastical courts, the Star Chamber, and the common law courts and have little relevance today.

It is unfair because the complexity of the law makes litigation expensive, and the unavailability of legal aid means that in practice the law only protects the reputations of the rich who can chance litigation.

It is defective because the remedies do not fit the wrongs. Often the most appropriate remedy would be a simple but quick correction or retraction, setting the record straight. Under present law, publishers are encouraged to offer correction and apology in some cases, but cannot be compelled to do so even when the falsity of what they published is evident.

The US law of defamation is no better. It maintains the same archaic distinctions between libel and slander and the same inadequate choice of remedies. Damage awards are even more capricious than in England. According to one study, the average jury award in media cases is more than $2 million, and some verdicts have exceeded $25 million. These are usually reduced or reversed on appeal, but judgments of more than $3 million have been upheld.

Attorney's fees in major US libel cases often exceed $1 million, and in some cases have been as high as $10 million. As a result, libel litigation is beyond the reach of most Americans. US law may also have gone too far in protecting the press at the expense of personal reputation, discouraging able people from participating in public life and encouraging a politics of scandal at the expense of serious discussion of issues. Despite its faults, however, US defamation law does reflect several basic principles that merit serious consideration in England.

The first is the belief that every person has a fundamental right to express an opinion on matters of public concern without fear of legal consequences. As the US Supreme Court said, "there is no such thing as a false idea. However pernicious an opinion may seem, we depend for its correction not on the conscience of judges and juries but the competition of other ideas".

To honour that principle, most US courts hold that statements of opinion are absolutely protected. "Opinion" is defined with a close regard to context, so that even a statement heavily laden with specific accusations is likely to be called "opinion" if it occurs in public debate over a matter of legitimate public concern. The classification is made by the judge rather than the jury, and if he decides the statement is opinion, the case will be dismissed early on, with minimal expense and delay.

Naturally, the English law also protects opinion, through the defence of fair comment. But this concept provides only a niggardly and undependable defence. Opinion is much more narrowly defined in England, and even then the defence will be lost if the defendant has failed to make clear the facts upon which the opinion is based, or if a court decides that the comment was "unfair" or for an improper purpose.

Another useful principle of US libel law is the recognition that some factual error is inevitable in debate of public issues, and that public debate must have some "breathing space" if it is to be robust. By contrast, the basic English rule is that whoever makes a defamatory statement is strictly liable unless he can prove the truth of his statement. The Defamation Act of 1952 contains an exception for unintentional defamation, but this cumbersomely phrased defence has given little relief from the general rule of strict liability in practice.

Under the strict liability rule, the US Supreme Court wrote, "would-be critics of official conduct may be deterred from voicing their criticism, even though it is believed to be true and even though it is in fact true, because of doubt whether it can be proved in court or fear of the expense of having to do so . . . The rule thus dampens the vigor and limits the variety of public debate".

To reduce the threat of self-censorship, the US courts require private plaintiffs to prove that the defendant was negligent with respect to the falsity of the charge. Plaintiffs who are public officials or public figures must prove even more — that the defendant knew the statement to be false or had serious doubts about its truthfulness.

There are many in the US who think these requirements make plaintiffs' burden too heavy, especially if they are public figures or officials. But there is little quarrel with the underlying idea that those who speak or write about public issues must be given some room for honest error.

For the same reason US courts abandoned recently the rule which still dominates the English libel trial: that the burden of proving truth rests on the defendant. The effect of such a rule is to treat any statement sued upon as presumptively false — a presumption which gives preference to the private interest in clearing one's name over the public interest in free speech. This sometimes has the undesirable consequence that when the defendant could not meet the burden of proving the truth of the alleged libel, the plaintiff can leave the court with his pockets full but without having cleared his reputation.

In many cases this burden is immaterial, but where the truth is unprovable, or where the evidence of truth is equally balanced by evidence of falsity, assignment of the burden is decisive. The American choice is to give free speech the benefit of the doubt and to oblige the plaintiff to prove the falsity of the incriminated statement.

We do not advocate the wholesale adoption of US rules. But the study of US law, along with the case law of some European systems and the work of the Strasbourg Court of Human Rights, seems overdue. An impartial comparative study might provide an impetus for a fresh examination of this important area of the UK law.

Any reform of the law of libel should, in our view, encourage uninhibited reporting on public issues, provide less expensive remedies for the victims of defamation, and avoid oppressive and excessive damage awards and litigation costs.

David A. Anderson is Thompson & Knight Centennial Professor at the University of Texas and Visiting Professor at Queen Mary College, London. Basil S. Markesinis is Denning Professor of Comparative Law at the University of London, Queen Mary College.

ACCOUNTANCY COLUMN

Policy of reserve in terms of insurers' reports

By Nick Bunker

POOR Royal Insurance. Last year's hurricane cost the company £105m in the UK: this summer it had to cope with a consulting actuary.

For several months, actuaries from Tillinghast mulled over Royal's loss reserves in the US, where the group sells more than 43 per cent of its non-life insurance book. It came up with a conclusion that Royal needed to provide another $200m (£109.9m) to meet claims expected to arise from policies underwritten in 1985 and before.

The result was to lop £112m from the group's pre-tax profits for the first nine months of 1988. The surprise it caused should have focused attention on the way insurers explain how they reach their most ticklish operational decision: the decision each year on how much to put into reserves against claims that will one day be paid on policies issued in that year, and previous ones.

None of the UK's leading composite insurers has found a satisfactory way of giving shareholders adequate information about the state of its outstanding claims reserves. Yet the 1987 annual reports for the six largest UK-based non-life insurers show that those reserves totalled £11.26bn, a figure 40 per cent larger than their combined shareholders' funds.

The topic never receives the debate it deserves. One reason is that the accountancy profession in particular is obsessed with the well worn argument about how composites should account for the investment gains they make from their non-life funds, kicked off by Eagle Star in 1984, when BAT, its new owner, changed its accounting policy.

Outstanding claims reserves a black hole, comparatively

The upshot has been confused. Eagle Star takes the average of five years of realised and unrealised capital gains into its profit-and-loss account. Commercial Union recognises realised capital gains in its after-tax profits. Last March's European Commission's draft directive on insurance accounting requires realised gains to appear in the profit-and-loss account, while unrealised gains must go into reserves.

That may be a muddle, but by comparison outstanding claims reserves are a black hole. True, none of the largest composites uses its legal right under the 1985 Companies Act not to say how big (or small) they are.

But what matters is how the £11bn was calculated - and whether it is enough, or too much. Shareholders need detail about the assumptions used, and to be told whether, and when, the reserves are checked by independent actuaries.

They also deserve plain speaking about how good reserving was in the past and, if it went wrong, to know why. They also need to know the average time over which claims will be settled. A negligence policy issued now to an architect might produce a claim in 2008: the longer the tail of liability, the greater the uncertainties.

What the composites actually offer in their annual reports are mere thumbnail sketches. Guardian Royal Exchange says that full provision is made for the estimated cost of claims outstanding at the end of the year, taking account of inflation.

But inflation is ambiguous. The general inflation rate in the economy - or the price of motor repairs? Tillinghast found that Royal's workers' compensation claims were going to be greater than expected because the cost of medical care for injured Americans was escalating. Damages awards were also creeping up, aggravated by adverse legal rulings.

Nor do the composites' published accounts say how much of the outstanding claims reserves are for "IBNR" (incurred but not reported), meaning claims that have not been notified but can be predicted statistically. Nor do they break down the reserves geographically, or by class of business, although it is much harder to project future claims under US liability policies than losses from UK factory fires.

Few outsiders can make much of the 300-page DTI reports

Analysts can read the annual returns the composites make to the Department of Trade and Industry, or to insurance commissioners in the US. The DTI returns, for instance, show how reserves set up each year since 1970 compare with claims that actually emerged.

But insomniacs leafing through the 300-page DTI returns will find them chiefly laid out to fit DTI computers.

Few outsiders can make much of them. If outsiders try, managements react apoplectically to suggestions that reserves are inadequate. There was a famous row six years ago between CU and Wood Mackenzie when the stockbroker foresaw (correctly) that CU's expansion in the US would mean huge reserve-bolstering a few years later.

Will disclosure improve? Maybe, because of another debate. This one concerns discounting: the question of whether non-life insurers should take credit for future investment income when setting up reserves. Prudential already discounts part of the reserves of its reinsurance subsidiary, a move that raised its pre-tax profits by £8.8m last year.

Loss reserve discounting would improve disclosure, because the EC directive insists that insurers disclose the assumptions they employ in doing it. But insurers will not rush to discounting, because the Inland Revenue is eager to take its cut of resulting increases in reported profits.

There is no reason, though, for individual insurers to delay steps to enhance disclosure.

The 10-K reports filed by US insurers with the Securities and Exchange Commission contain loss-reserve triangles. Those tabulate the way outstanding claims reserves compared with losses that actually arrived, swiftly showing if the insurer has a history of skimping its provisions.

Best comments put reader in the mind of the manager

Yet the triangles can be crude: much better is the disclosure by some underwriters at Lloyd's, such as the R.J. Kiln group. At Lloyd's, reforms in reporting since the scandals of the early 1980s have been far-reaching. One such was a requirement to publish with syndicate accounts a commentary written by the person who runs it.

Many syndicates' commentaries are superficial, but at their best they put the reader inside the manager's mind, explaining how losses have developed, the syndicate's reinsurance protection, and what the future holds. The only obstacle to the composites doing likewise is their fear that in shareholders' hands a little knowledge is a dangerous thing.

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- Ad hoc financial analysis of capital projects and business development opportunities

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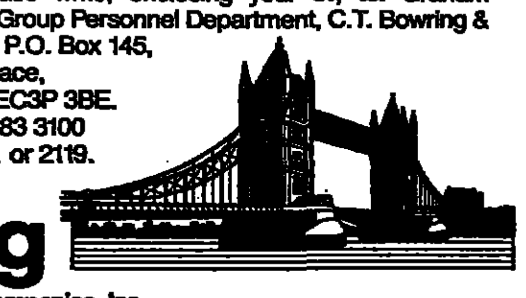

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Saint Group

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LEGAL NOTICES

Hazel Street Limited
Registration No. 481170

This is a Notice under Section 175 CA 1985 to the effect that the Company has approved a payment out of capital for the purpose of acquiring its own shares by purchase from the major shareholder Mrs Bridges under Bridges Will Trust.

Capital payment for the shares in question is £175,000 under the Resolution dated 9th December 1988 made under Section 173 CA 1985. The statutory Declaration of the Directors and the Auditor's Report required by Section 173 are available for inspection at the Company's Registered Office.

Any creditor of the Company may at any time within the five weeks immediately following the date of the Resolution for payment out of the capital apply to the Court under Section 176 for an Order prohibiting the payment.

McCurren Goldhon
Chislehurst
Kent

ART GALLERIES

Cran Kalman Gallery, 178 Brompton Rd, SW3. 01-584 7566. "Selection of 20th Century British Art". Paul Nash, Ben Nicholson, Sir Matthew Smith, Sutherland, Wyndham Lewis, Edward Burra, Kit Wood, Winifred Nicholson, R.Spear, Carel Weight, Alan Lowndes, Patrick Hayman, Mary Newcomb, Lynn Chadwick, Alfred Wallis, etc. Until 14 Jan 89. Mon-Fri 10-6, Sat 10-4.

COMPANY NOTICES

TRANSWORLD BOND TRUST
2, boulevard Royal
LUXEMBOURG

DIVIDEND ANNOUNCEMENT

The Transworld Bond Trust will pay a dividend of $US 0.25 on December 20, 1988 to registered shareholders at the close of business December 12, 1988 and shares will be traded ex-dividend after December 12, 1988.

The dividend is payable to holders of bearer shares against presentation of coupon no 2 to Banque Internationale à Luxembourg, 2, boulevard Royal, L - 2953 Luxembourg.

By order of the Board of Directors
of the Management Company

CANADIAN PACIFIC LIMITED

At a meeting of the Board of Directors held today, the following dividends were declared:

ORDINARY SHARES
A final quarterly dividend of nineteen cents (19c) Canadian per share on the outstanding Ordinary Shares in respect of the year 1988, payable on January 30, 1989, to holders of record at the close of business on December 23, 1988.

PREFERENCE SHARES
A final semi-annual dividend of 2c per Canadian Dollar Preference Share and 2½ pence per Sterling Preference Share on the outstanding Preference Shares in respect of the year 1988, payable on January 30, 1989, to holders of record at the close of business on December 23, 1988.

BY ORDER OF THE BOARD,

D.J. DEEGAN
VICE-PRESIDENT AND SECRETARY
MONTREAL, December 12, 1988

NOTICE TO ALL HOLDERS OF
Bonds, Warrants or Coupons for which The Mitsubishi Trust and Banking Corporation acts as Paying, Warrant or Fiscal Agent
and
Certificates of Deposit issued
before
6th May, 1988 by The Mitsubishi Trust and Banking Corporation at its London branch.

Please take note that from 19th December, 1988, our address will be changed to:
Mitsubishi Trust House,
24, Lombard Street, London
EC3V 9AJ (Tel: 01-929 2323).

All matured or Convertible Bonds, Warrants, Coupons or Certificates *of Deposit issued before 6th May,* 1988 should be presented for payment, conversion or exercise at the new address, with effect from 19th December, 1988.

JAPANESE GOVERNMENT 6% STERLING LOAN 1983/88

The Bank of Tokyo, Ltd. are instructed by the Japanese Government to announce that the REPAYMENT of the PRINCIPAL will be made on the Bonds on and after 3RD January, 1989 together with the PAYMENT of COUPON NO. 50 due 31st December, 1988. The said COUPON should be detached from the Bonds and be listed and presented on the forms provided. All Bonds and Coupons must be left at least six clear days for examination prior to payment. Bonds and Coupons cannot be accepted through the post.

THE BANK OF TOKYO, LTD.
LONDON
(Fiscal Agent)

15th December, 1988

CLAL FINANCE N.V.
US $12 MILLION GUARANTEED FLOATING RATE NOTES 1990

The interest rate applicable to the above Notes in respect of the initial interest period commencing 15th December 1988 will be 10¼% per annum.
The interest amounting to US $515.03 per US $10,000 principal amount of the Notes will be paid on 15th June 1989 against presentation of Coupon No.7.
BANK LEUMI (UK) PLC
Principal Paying Agent

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REFURBISHMENT

The Financial Times proposes to publish this survey on:

10th January 1989

For a full editorial synopsis and advertisement details, please contact:

Penny Scott
on 01-248 8000 ext 3389

or write to her at:

Bracken House
10 Cannon Street
London
EC4P 4BY

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

Food fashion

Spam – still going down well in South Korea

Maggie Ford explains the unlikely popularity of an American processed meat

Last autumn during the harvest festival gift-giving season in South Korea, a foreign businessman was surprised to receive a presentation pack from a Korean client. It contained not the usual bottle of Scotch, or basket of expensive fresh fruit, but several cans of Spam. Worried that he might have suffered a sudden fall in status, he asked local businessman what they thought about the present. Perfectly acceptable gift, they assured him; it usually appealed to the wife as well.

The selling of Spam in South Korea as a luxury western product would rate as one of the triumphs of the world food business, if the processed food market were not such a curious one. Every Seoul supermarket contains shelves of plain Spam, spam with cheese chunks, "smoked" spam, even spam with low salt content.

A small 200 gramme can, its label showing a slice fried with an egg costs Won 1600 (£1.26p). Those wishing to impress can buy the special department store presentation pack of 9 cans at the princely price of Won 23,500 (£18.60p).

Nestling on the next shelf at the relatively lower price of Won 2,470 (£1.95p) for a 350 gramme can, is Spam's cousin, luncheon meat. For those shoppers on a really tight budget, however, four slices of smoked ham can be bought from 64p, a standard size tin of tuna may be found for a mere 79p and a lowly can of sardines costs 37p.

This distortion of the image in Westerners' eyes of their food – whereby high quality products are sold cheaply, and those considered downmarket are expensive – owes much to South Korea's history of war.

Products such as Spam were invented as substitutes for ham, sausage and pork during wartime food shortages in Europe.

When the Korean War broke out in 1950 and United Nations troops arrived to help the South, the cans of American spam and Hershey chocolate bars the soldiers brought may well have been the first western food many Koreans had ever seen. Since then, strict bans have been imposed on imports, including consumer products like food, in the interest of economic growth. Koreans have also been banned from travelling abroad in order to save foreign exchange.

The result is that many people's understanding of western food is based on black market goods purloined from several US military bases scattered around the country. A style of cuisine has even been invented, known as "Budegogi", or army meat, where items such as Spam are cooked with vegetables, garlic and red peppers into a spicy stew.

Tastes are changing, however, as the economy begins to internationalise and the travel ban is lifted. Korean businessmen are now lining up at foreign restaurants in Seoul to try the authentic taste of western food.

At the Seoul Hilton hotel's Italian restaurant, where 50 per cent of customers at lunch are now Korean, a typical local diner will order Parma ham and melon, minestrone soup, chicken al parmigiano and cassata ice cream.

According to the restaurant manager, the South Koreans, perhaps uniquely in Asia, are fast developing a taste for cheese. They are also exploring the varieties of foreign wine to enter the country following the relaxation of some import restrictions last year.

But while a dozen hotels and a few other tourist restaurants are able to import the quality foreign foods for which a taste is now developing, consumers are likely to have to wait awhile before they can find a salami in their supermarkets.

The problem, according to one foreign businessman who would like to open an importing company in Seoul, is twofold – the continuing government restrictions on imports and the attitude of the Korean food and trading companies which now supply the market.

"Most of these men remember the Korean war and have a very old-fashioned, conservative and American-oriented attitude," he says. "They have not moved with the times."

The South Korean Government announced changes to the regulations on trading in August, under which foreign companies are allowed to import goods and distribute them in South Korea. The Government's economic policy also stressed stimulating domestic demand and lifting import restrictions on a wide-range of products.

But foreign businessmen have discovered that while they are technically able to set up a trading company, foreign exchange restrictions make it difficult for them to bring in funds needed to start the business.

Meanwhile, local food-producing companies are moving only slowly to introduce new western-style products and most of them, such as breakfast cereals, baked beans, processed cheese slices and smoked ham, are aimed at children.

South Korean housewives are following the example of their Japanese counterparts and serving quickly cooked western or Korean snack suppers for children rather than the full Korean meal of rice with numerous complicated side dishes.

Foreign businessmen are frustrated by their inability to market quality foreign products in a country where consumers are adventurous and tastes quite wide-ranging. South Korea has experienced a surge in prosperity over the past two years with wages rising by an average of 40 per cent along with double figure economic growth. But lobbying by Korean companies which fear that they will not be able to compete has delayed the lifting of restrictions.

Nevertheless, some restrictions may be eased as the current boom in travel increases people's knowledge of the sorts of food available abroad, and local companies begin to respond to the demand (such foreign companies as McDonald's and Baskin Robbins ice cream, which have been let in, are doing a roaring trade).

If that happens, Spam may start to fall from its exalted market position. Until then, foreign residents will continue to return from trips abroad, their suitcases bulging not with duty free whisky and cigarettes, but with salamis and olives, muesli and preserves, cooking spices and chutney along with the most missed product of all – real French cheese.

Spam gets the premium product treatment with this display in a Seoul department store

Will the US cookie price crumble in the wake of takeovers?

Jim Rogers is emphatic. "You certainly can expect to pay more for Oreo cookies," says the professor of finance at the Columbia University Graduate School of Business in the wake of the successful $25bn bid by Kohlberg Kravis Roberts for RJR Nabisco Company. Oreo is among the food and tobacco company's best known food brands, along with Del Monte tinned fruits, Ritz crackers and Nabisco breakfast cereals.

Usually KKR breaks up companies; but this one it says it intends to run, notes Rogers. If so, he maintains, the price of everything RJR Nabisco sells will go up. "I cannot see how they can service the deal without raising prices."

Rogers adds: "The purchase was made right at the top of the market, at the end of a ten year cycle of raw materials going down in price. Starting this year, prices are going up, a major cyclical change. Cash flow is turning negative and no matter what happens, they will have to raise prices. Now they will have to raise them even more."

Tom Pirko, president of Bevmark, a beverage consulting firm, agrees. "There is absolutely no question that this all means higher prices and the consumer will pay the piper."

The acquiring companies in such deals, which includes Philip Morris's $13bn takeover of Kraft, are hardly likely to admit to raising prices. The US Congress has already expressed qualms on behalf of consumers, who themselves are showing "a lot of antipathy towards big companies," according to Mona Doyle, president of Consumer Network, a market research company.

But talking of the inevitability of raising prices is one thing - achieving it is quite another. Indeed, observers of the packaged goods industries raise doubts about whether such a step is even feasible in hotly competitive markets.

Food industry analyst John M. McMillin of Prudential Bache Securities says: "The evidence is that, if anything, prices of products after a takeover go down. That is what happened to Beatrice products," he says, referring to an earlier break-up of the huge food conglomerate. After Seagram bought Beatrice's Tropicana orange juice business for $1.2bn, rebates to consumers have been a generous $1 cash plus $1 each on two subsequent purchases – a move intended to increase volume.

As McMillin says: "Food retailing remains a highly competitive business. There is no room to raise prices above competitive levels."

John A. Quelch, who specialises in consumer goods as professor of business administration at the Harvard University School of Business, says: "I do not see deleterious prices for consumers from this. In most markets with mature technologies, there tends to be industry overcapacity, suggesting that an acquirer cannot typically raise prices."

The huge prices being paid for these companies' "goodwill" – the premium over their assets and profits – means that the acquirers have to find some way of improving their returns. They have to translate the Wall Street premium of their acquisitions into main street shopping baskets. If the brands cannot be jacked up in price, the options for improving returns on the products themselves are limited to line extensions, price promotions and spending cutbacks, including reduced advertising budgets. None comes risk free.

Line extension, or using a brand name for new products, has already been used successfully by Kraft. Quelch believes this is the way the companies can capitalise on the value of the brand names. But shelves have become so cluttered with new products, including line extensions, that American supermarkets are charging "slotting allowances" even to carry them. The fees apply to line extensions of existing brands, adding millions to the development and other costs of introducing new consumer food products, which typically amount to an astounding $100m.

Hamish Maxwell, the chairman of Philip Morris, the US food multinational, admits: "By and large, we're not keen on paying slotting allowances, but we have to be practical."

Price promotions are a standard tactic to improve margins after a takeover, but cutting the price of a brand dilutes its premium value. Price cutting is a way of maintaining market share at the expense of image; but it can also be evidence . that competitors hold the advantage in the uncertain times that follow a company's sale.

Quelch contends: "The other brands accelerate new product introductions and have their own price promotions to take advantage of the leaders' temporary weakness."

The advertising industry expects both reductions and account realignments from the RJR Nabisco sale. The company was fifth last year in Advertising Age's list of top advertisers with expenditure of $840m, but "advertising agencies, market research companies and marketing consultants will now be competing with banks for RJR's money," according to industry consultant Bill Bishop.

To John Quelch, cutting back on advertising to conserve profits can be the riskiest strategy of all. "Losing a quality image can destroy a product for good."

Frank Lipsius

ARTS

Orpheus Descending

HAYMARKET THEATRE

The Peter Hall Company has started off in great style, with a steamingly atmospheric production of what is probably Tennessee Williams's last major play. Already, you can see the style fragmenting, creating a challenge our theatre seems reluctant to meet. In a similar way, Sean O'Casey's last plays are considered too "difficult."

Orpheus Descending (1957) has never had a good press but Hall's majestic revival makes a virtue of its seeming intractability and thunderously relates it to the rapid Deep South society of an earlier play, such as *Sweet Bird of Youth*. The technique is odd, kaleidoscopic, cumulative, with a central doomed duo sniffing each other out like animals.

The general dry-goods store run by Lady Torrance, whose Italian immigrant father was burned up in his orchard by the Ku Klux Klan ("for selling liquor to niggers") is at the epicentre of storms, visions, fears, and boiling hostility. Lady's husband (Paul Freeman) was behind the outrage. While he festers at death's door upstairs, Lady takes in a drifting guitarist, Val Xavier, as a clerk and lover.

This attinated Orphic symbol, with his lyre inscribed with the names of jazz and blues greats, was loosely modelled on Elvis Presley, and suffers a similar sacrificial fate. At 30 years old, he needs to slow down. Life, he says, is one long spell of solitary confinement. His uniform of a snakeskin jacket assumes a talismanic function, taken up by fellow outlaws, the black conjurer (Doyle Richmond) and the trembling waif, Carol Cutrere. In this latter role, Julie Covington is really outstanding, a joy-riding demonic urchin, who is paid to stay away from home. Her brother was a lover of Lady's and the community unloads its resentment as the shop prepares to open a confectionary counter decorated like a tinsel orchard.

Speeches break out of naturalistic dialogue, and Hall sets an enveloping style from the very first bitchily gossiping conversation between the townswomen. An electronic score by Stephen Edwards reflects the rumbling changes in temperature, and the lighting of Alison Chitty's verandah-dominated set by Paul Pyant is used to denote dramatic gear changes into musical riffs and jags of fear and superstition.

The air is thick with threats of violence. The shocking climax occurs at the moment when Lady has reached furthest back into her memories of happiness, just as we learn of new life beating within her.

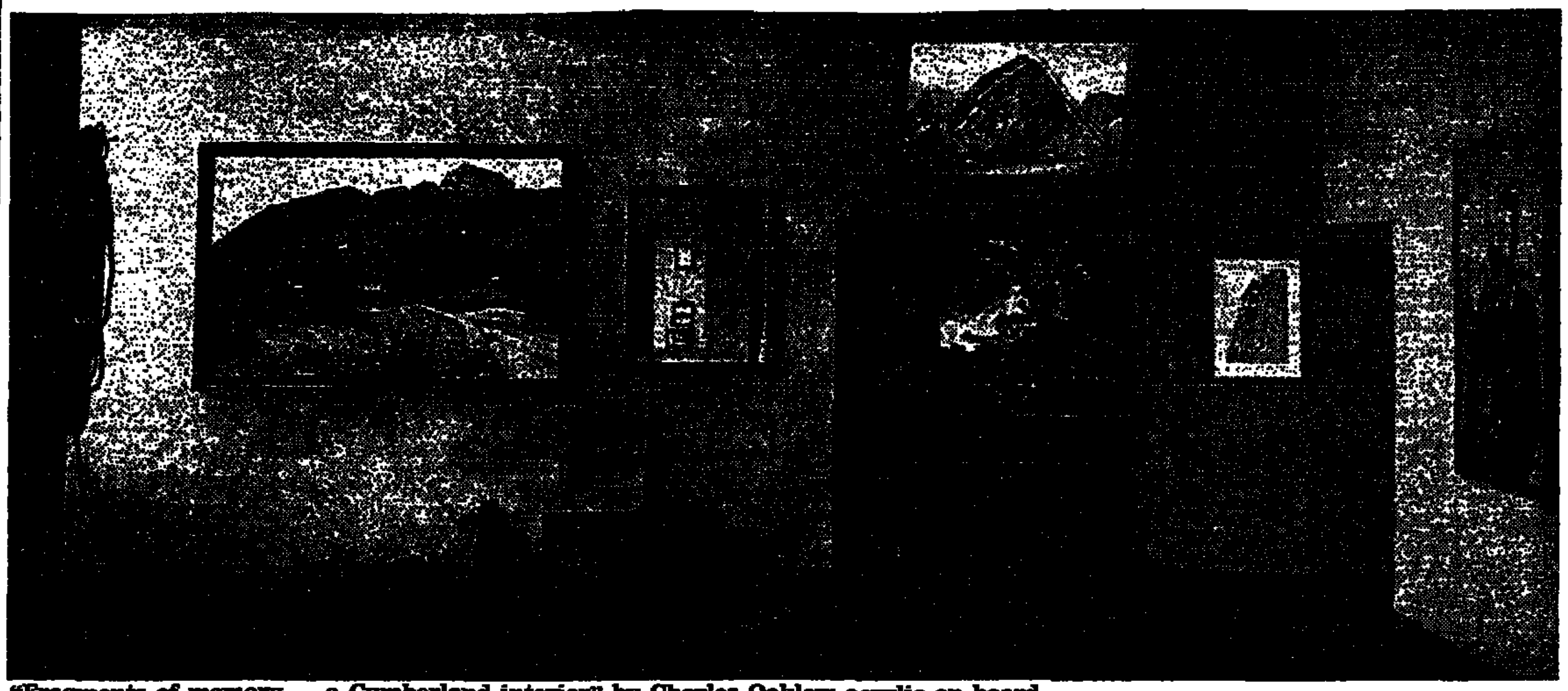
This jostling of present action with past and future states of exultation is something I had not noticed before, and Hall and his top notch cast pin it down with brilliance and sensitivity. Marlon Brando played Val in the film of this play, *The Fugitive Kind*, and the French Canadian actor, Jean-Marc Barr, is smoulderingly good-looking, casually damned, and dangerous in the Brando mould. This fine performance reeks with the cruelty of the very attractive.

When Val massages Lady's neck, Vanessa Redgrave becomes putty in his hands. This great actress has yet to bind the various insights into a coherent performance. The Italian businesswoman, the frustrated widow, the avenging daughter are all isolated aspects that only add up when all the information is available.

This bitterness reflects the unusual structure of the piece and Miss Redgrave's performance will obviously soon *grow into the required pattern*. The play, beautifully orchestrated, has been handsomely restored, and offers London a rare chance to meet this great playwright on territory both new and familiar.

Michael Coveney

Vanessa Redgrave and Jean-Marc Barr — Alastair Muir



"Fragments of memory – a Cumberland interior" by Charles Oakley: acrylic on board

Bravery behind 'Impressions of Cumbria'

Artists should be encouraged go out to the public, argues William Packer

Kirkby Lonsdale sits at the borders of Lancashire and Yorkshire in what was the *ancient county of* Westmorland, now lost in the bland generality of Cumbria. Though this name inevitably calls to mind Cumberland and its Lakes, the wild and beautiful countryside around Kirkby lies under the north-western Pennines to which the town is the gate.

It is a small, pretty and unspoilt country town, with a fine church and *old-fashioned pubs, though a plethora* of boutiques does bespeak a certain dependence upon the tourist. It is just the sort of place where one would expect to find the familiar arts and crafts centre, earnestly selling third-rate studio pottery, amateur paintings and junk jewellery to an eager and appreciative public. But Kirkby has something altogether more special and worthwhile and, it must be said, more difficult in the circumstances to sustain.

Ian Higginbotham set up his Coach House Contemporary Art a little over two years ago, since when he has been showing the best of contemporary art that he can find, drawing older artists of more established reputation into his regular programme of solo shows. Norman Ackroyd, Graham Foster and David Walker Barker are among those who have shown this year. The occasional thematic exhibition gives him the chance to throw his net wider still.

The point is that artists respond to the opportunity. The British art world may be grotesquely distorted in its London bias, but artists know that there is a vast public beyond the pale that is virtually untried. The encouraging *thing is that so many of our very best* artists are prepared to take their work to that public whenever they can. Besides, even Kirkby Lonsdale is not that remote; a quick look at the map shows a catchment population of many millions within a radius of 60 miles – Manchester, Newcastle, Durham, Carlisle. Last week's private view of *Impressions of Cumbria* (until January 28) drew guests quite literally from the other side of the country.

The difficulty is, of course, that artists must live. Work that is nevertheless cheap enough in all conscience seems dreadfully expensive to the casual and uninformed. A century and more of the modern art joke has left its mark. Yet those so often are the same people who bemoan London's cultural neglect of the country at large. Though their artists support them to the hilt, if the Higginbothams of this world must pack their bags and move on for lack of local support, the loss is the locality's, which has only itself to blame.

It is extraordinary, for example, that Glasgow and Edinburgh between them can boast only a handful of galleries dealing in contemporary art, while Leeds, Manchester, Birmingham, Liverpool, Newcastle, Sheffield, Bristol, Norwich – the list is shamefully long – would be lucky to average two apiece. Kirkby is lucky to have its Coach House Gallery, and it is heartening that the Leisure Services Department of that South Lakeland District Council should have come in to sponsor *Impressions of Cumbria* to a modest degree, and that its Chairman should put in an official *appearance at the opening*.

The show's title is clear enough. More than 40 artists of all kinds – painters, sculptors, potters ad print-makers – were asked to contribute work that reflected their response, and given that generous imprecision in the subject, the variety is hardly surprising. Its quality overall, too, is no surprise, once one considers the names on the roll, with many having shown widely in the north of England and a substantial number enjoying national standing. If the general feeling is more of romantic expressionism than of studied objectivity, that is the character of the times we live in. All the work is of a comfortably domestic scale, reflecting the character of the rooms themselves.

It is always invidious in shows of this *kind to pick out particular names*, but some do stand out. Some perhaps may not need a further boost, but Norman Ackroyd, the late Norman Stevens, John Loker, Dennis Creffield, Brendan Neiland and Andy Goldsworthy get one anyway. And I liked especially Michael Lyons' small steel *Snowstorm*, an accretion of metal fragments, Donald Wilkinson's strong water-colour diptych of a *windswept Langstrath*, Terry Shaw's expressionist suggestion of large fires burning in the landscape at night, and Tony Robert's similar evocation of travelling by night. Charles Oakley's *Cumberland Interior*, autobiographical and deliberated, has its own quiet, imaginative potency.

London Philharmonic

FESTIVAL HALL

Schoenbergian explorations resumed on the South Bank on Tuesday night with a performance by the London Philharmonic, under its conductor laureate, Klaus Tennstedt, of the 1947 musical drama, *A Survivor from Warsaw*, Opus 46. The work is about seven minutes long, scored for large orchestra, male voices and narrator, and delivers an impression of life, or more precisely, imminent death, in the Warsaw Ghetto – an impression that is as starkly and acridly convincing as it is surely possible for music to be.

The text Schoenberg based "upon reports which I have received directly or indirectly" it is declaimed in a garish expressionistic fashion, the narrator's English alternating with his rendering of the brutal German of his captors, who are herding their victims to the gas chamber. The jabbing, cacophonous orchestral background evokes all the seediness of the situation and leaves little of its horror to the imagination, yet manages to be musically satisfying; and the work's extraordinarily taut organisation makes for a surprising and moving formal culmination in a burst of choral affirmation when the half-conscious narrator hears the beaten-up prisoners start up singing the words of the Hebrew command to love the Lord: *Shema Yisroel Adonoy*...

Then the work is suddenly over – as much as can be said about such an atrocity has been said. The terrifyingly sharp snap (and it could not be sharper or more terrifying than it was in this performance) with which the music ends is emblematic of the piece as a whole, which is like the expansion of a single moment of terminal terror. The expressionism of Schoenberg's earlier works finds its fulfilment here; and in this account, deeply impassioned and yet evincing a kind of flamboyant steeliness, the work itself could be said to have found its fulfilment. John Shirley-Quirk narrated with stunning force. The men of the London Philharmonic Choir rose to the occasion.

After a short pause (no interval) Tennstedt conducted a work, Mahler's fifth symphony, which with its hard-edged textures and sustained clamorousness is not far removed aesthetically from the Schoenberg: a document of the spiritual preconditions of the obscene reality which *A Survivor from Warsaw* documents. Tennstedt's view of the symphony was comprehensive and generous: the music-making had overwhelming vitality, irresistible dramatic flair, and was brilliantly detailed (what the cello section alone was doing repaid the closest attention). It was a satisfyingly cohesive interpretation of an unwieldy masterpiece; yet, especially in the harsh light of the Schoenberg work, it seemed to lack a certain alertness to Mahler's own expressionistic shrillness, his intimations of horror, his cruel ironies. I've seldom heard a more melting account of the Adagietto movement, but I would also have liked to feel a sense of the true emotional cost when Mahler blithely sends up the Adagietto theme in the profoundly ambiguous finale.

Paul Driver

Don Giovanni

ROYAL OPERA, STOCKHOLM

As major houses go, the Royal Opera in Stockholm could hardly provide a starker contrast to its namesake in London: the Stockholm house has almost giveaway seat prices; a young, informal and attentive audience; performances in the vernacular; and a regular ensemble of singers. For all the rich elegance of the building's public rooms, the atmosphere is more intimate, more functional, more egalitarian. And so it should be, with a state subsidy that accounts for 80 per cent of the SKr200m (£20m) annual budget.

Freedom from financial worry is no guarantee of artistic success, but fortunately the new production of *Don Giovanni* impresses enormously. There may be no blue-chip voices – this is not Drottningholm, and the stars (and leading Swedish singers) sit in only for special promotions. But the composer is faithfully served – by a stage director who has listened to the music and honed his ideas into a fluent, practical production; by singers who are able to react to each other as a practised ensemble and communicate across the footlights; and by a conductor and orchestra who shape and animate the score in harmony with the stage.

The staging is by Ralf Langbacka, a Finnish theatre director whose main experience of opera has been in television production. He takes the *dramma giocoso* at face value, offering a series of sharply observed dramatic set pieces laced with judicious comic observation. He and his designer, Ralf Forsstrom, solve the work's visual challenges with disarming theatrical flair, and the problem points – both musical and dramatic – are made to vanish without trace. Costumes are traditional. The decor is an unpretentious collection of rough-cast facades – both noble and tumbledown – which offer new perspectives for each scene and plenty of playing space. Like the Giovanni himself, there is an air of shifty squalor behind the aristocratic surface.

Langbacka is greatly helped by a Giovanni whose sexual appetite and masculine charm make him every bit as dangerous as he is irresistible. Carl Johan Falkman, who sang Escamillo in Peter Brook's *Carmen* gets round the notes well, with a hard but distinctive bass baritone voice, and he holds the stage with gypsy magnetism. This Giovanni makes quick work of Zerlina on the marriage bed conveniently left by the peasant betrothal party, and toasts his success in a Champagne aria delivered from a sauna, with Leporello and loofa in attendance.

There were regular ripples of laughter throughout the performance – yet, there was never any sense of overacting, playing for laughs, or producer's business. The staging had a dramatic logic that held *the attention from start to finish*, and I temporarily forgot I was hearing it in Swedish. Langbacka's only controversial move was to bring Giovanni back to life in the finale – but even this added convincingly to the lighthearted moral of the closing sextet.

The only voice of special interest was Solveig Kringlebotn's Zerlina, who sang with purity and character, and was the essence of svelte Scandinavian beauty. The other two sopranos, especially Lena Nordin's vocally well-proportioned and expressive Anna, articulated *cleanly and evenly, with* none of the squalliness one so often hears in this work. In the pit, as on stage, the emphasis of Thomas Schuback's highly musical conducting was the exquisite balancing of parts and clear-headed, unostentatious dramatic support: altogether a performance which expressed far more than the sum of its parts.

Andrew Clark

White knight rescues Sadler's Wells Opera

The New Sadler's Wells Opera staved off bankruptcy at the last minute yesterday when a creditors' meeting was told that a "very substantial company" was considering rescuing it. Creditors, including theatrical suppliers and the Inland Revenue, agreed unanimously to give the potential rescuer until January 10 to decide whether to go ahead.

Mr Philip Moniack had been expected to be appointed liquidator at the meeting. A spokesman for him said: "The news was a great surprise. No one had suspected a white knight was waiting in the wings."

The identity of the potential rescuer was not revealed but the company is understood to have indicated a wish to consider paying off the £450,000 owed to creditors and to support the opera company in future.

Imminent bankruptcy was announced three weeks ago by the New Sadler's Wells Opera, which was set up five years ago. Current productions are *La Belle Helené* and *The Gondoliers*.

ARTS GUIDE

December 9-15

EXHIBITIONS

London

The Royal Academy. Toulouse-Lautrec: The Graphic Works. Comprehensive selection by Otto Gerstenberg of the graphic work of this brilliant and innovative draughtsmen.

The National Gallery. Rembrandt: Art in the Making. A small exhibition prepared by the Gallery's technical department and centred on major works by him in the collection, treating on Rembrandt's working methods. Ends Jan 17.

The Tate Gallery. David Hockney: A Retrospective. London's main gallery of modern art offers a full study of the golden boy of British art. It concentrates on the painting rather than graphic work of this most prolific of artists, who has enjoyed popular success from the start of his career. Ends Jan 8.

The Whitechapel Art Gallery. Richard Deacon: a major exhibition of sculpture made in the past 2 years by the winner of the Turner Prize in 1987. Daily except Mondays. Until Jan 22.

Paris

Louvre. Pavillon de Flore. Rembrandt and his school are on show in two exhibitions at the Louvre. Both exhibitions closed Tue, the first ends Jan 30, the second March 27. (42603926).

Galerie Odermatt-Cazeau, Camille Claudel 1864-1943. The sculptor, a disciple and lover of Rodin, whose tragic life, ending with 30 years in a mental asylum, inspired a book and now a film, is the subject of an important exhibition. (42669258). Closed Sundays, ends Jan 31.

Galerie Daniel Malingue. Maîtres Impressionistes et Modernes. Vieira da Silva, with an image broken up in countless squares, their perspective plunging ad infinitum, opens an exhibition strong in colour and rigorous in choice. Closed Sun, Mon mornings and lunchtimes.

Musée d'Orsay. Cézanne, The Early Years (1859-1872). The 63 paintings and 20 drawings and watercolours, already seen in London, reveal a hitherto neglected period of the artist's life. Ends Jan 1.

Brussels

Le Botanique Contemporary Soviet Painting. Works of 12 modern Soviet painters including Steinberg, Rocter, Edzgveradze, Filatov, Chvikov, Yankilevsky. Closed Monday. Ends Dec 31.

Musée d'Art Moderne, 1-2 Place Royale. The First Group of Laethem-St Martin 1899-1914. A tribute to the colony of Flemish artists whose stylised paintings of rural and religious themes were to inspire a later school of Flemish expressionists. Closed Mon. Ends Dec 31.

Musées Royaux d'Art et d'Histoire, Parc Cinquantenaire. China, Heaven and Earth, 5,000 years of Invention and Discovery. Instruments and artworks from collections in Belgium, China and Britain illustrate Chinese innovations in science and technology. Closed Monday.

Musée d'Art Ancien. From Manet to Picasso: The Reader's Digest Collection. Impressionist and Post-Impressionist works from the corporate headquarters in Pleasantville, New York. Closed Monday, ends Jan 22.

Vienna

Historisches Museum der Stadt Wien (The city of Vienna's Museum for history). A commemoration of Kristallnacht, which takes the form of pictures and maps depicting Austria's 180,000 strong Jewish community before 1938, is an attempt by the Austrian Government to become more open about its ignominous past. Ends Jan 29.

Rome

Palazzo dei Conservatori (Campidoglio). Glass of the Caesars. Queues are stretching right across Michelangelo's Piazza, waiting patiently for a glimpse of the immensely sophisticated ornamental glass and tableware belonging to the imperial Roman court. Until Jan 31.

Galleria Nazionale d'arte Moderna. Witty conceptual art by one of the best middle generation Italian artists, Giulio Paolini. Until Feb 26

Venice

Museo Correr a la Napoleonica: Giorgio de Chirico (1888-1978): a retrospective organised jointly by the Galleria Nazionale d'Arte Moderna in Rome and the Giorgio de Chirico Foundation to celebrate the centenary of the painter's birth. Ends Jan 15.

New York

Metropolitan Museum of Art. An exhibition of architecture on paper covers four centuries of drawings including works by Frank Lloyd Wright, Louis Comfort Tiffany and Arata Isozaki, as well as the west facade of the Alhambra that dates back to 1580. Ends Jan 8.

Metropolitan Museum. The first major Degas retrospective for more than 50 years has 300 paintings, sculptures and drawings covering the artist's entire career and various interests, from early classical motifs and stiff portraits to the ballet studios and washerwomen that freed his imagination. Ends Jan 8.

National Gallery. Phillips Collection. The modern vision of the pastoral landscape, with works by Gainsborough, Constable, Blake and Cézanne, among others, is part of an unprecedented 136-work, two part show, the other half of which, depicting Venician landscapes of five centuries, is at the National Gallery. Ends Jan 22.

Chicago

Art Institute. Dante Gabriel Rossetti, J.E. Millais, Edward Burne-Jones and Simeon Solomon take centre stage for this British drawings show, called "From the Ridiculous to the Sublime," which covers a century from Thomas Rowlandson's satires through Turner, Martin and Lear to the pre-Raphaelites.

Washington

National Gallery. Phillips Collection. The modern vision of the pastoral landscape, with works by Gainsborough, Constable, Blake and Cezanne, among others, is part of an unprecedented 136-work, two part show, the other half of which, depicting Venician landscapes of five centuries. Ends Jan 22.

SALEROOM

Walpole's ink stand tops

The Treasury ink stand used by our longest serving Prime Minister, Sir Robert Walpole (although he must be quaking in Heaven at the prospect of his record being shattered) sold for £770,000 at Christie's yesterday. The price equalled the record at auction for an item of silver, being matched by an épergne, also sold by Christie's in December 1986. Both had been made by the distinguished early 18th century silversmith Paul de Lamerie.

The ink stand, 30.3cm wide, had been delivered in 1729, and is engraved with the arms of Walpole and of Catherine, who he married in 1700. It had stayed in the family until it was bought yesterday by two major London dealers, Spink and Armitage, acting in concert. They out bid the other leading silver dealer Koopman all the way up and between them far exceeded the top estimate of £300,000.

Only one other Treasury ink stand by de Lamerie is recorded and that is in the collection of the Bank of England. Fortunately the buyers confirmed that this item, which is of great heritage interest, will stay in the UK. The auction totalled £1.45m, with 14 per cent unsold, a high figure given the fact that the ink stand represented half the total. A set of four French eleven light candelabra, made around 1880, which had been in the Palace of King Farouk of Egypt, sold for £35,200.

Phillips disposed of the most comprehensive collection of Dinky toys ever to reach the market, covering thirty years of the firm's output. Almost every model in the 650 lots, dating from 1934 to 1964, is in pristine condition and in its original box. The top price was the £7,050 paid by the dealers Mint & Boxed for a pre-War set of camouflaged aeroplanes, lacking one Fairey Battle Bomber. The price was over double the top estimate.

A box consisting of half a dozen pre-War fire engines sold for £5,500, as against a top estimate of £250, while the Fine Art Society, in a dramatic diversification from its usual purchase of pictures, paid £3,300 for five market gardeners' wagons, also dating from the 1930's.

Christie's also sold jewellery for £1.9m with a top price of £143,000 for a single stone diamond ring, with a stone weighing 12.97 carats. Sotheby's disposed of second division Victorian pictures for £540,837 with a high 21 per cent unsold. The top price was the £16,500 paid for "Over the nuts and wine" by Walter Dendy Sadler, exhibited at the RA in 1889.

Antony Thorncroft

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Rogernomics on hold

FINANCE Ministers around the world have been having a rough time recently, particularly in Britain and, for very different reasons, in Japan. But perhaps none has been fighting against the odds for quite as long as Mr Roger Douglas in New Zealand who was yesterday dismissed unceremoniously by Mr David Lange, his Prime Minister.

His removal, if politically inevitable, completes an apparent purge by Mr Lange of Douglas supporters, although the new Finance Minister, Mr David Caygill, immediately promised no change in policies. Still, the local and international business communities will be understandably dismayed to see virtually the entire team behind "Rogernomics" – restructuring and liberalising the New Zealand economy – on the back benches. They may conclude, with reason, that Mr Lange has lost his nerve and, under great pressure from his traditional supporters including the unions, decided to take a breather from the path of reform Mr Douglas was intent on walking.

For a long time the two men, like Mr Bob Hawke and Mr Paul Keating in Australia, were a powerful if unlikely combination. They swept into office in 1984, abandoning the old Labour dogma and promising to breathe free market life into an economy whose competitiveness had been all but strangled to death by decades of inflationary and protectionist policies.

Mr Lange, the consummate politician, is not economically coherent; Mr Douglas, a businessman with a clear vision and sound grasp of economics, possesses no political finesse. United they stood, impressively, but since their last election victory in August, 1987, their differences have become only too public.

Mr Douglas's legacy is remarkable for the sheer scale and speed of his endeavours. Therein lay the seeds of his downfall. He probably did try to take on too much too soon, difficult in New Zealand and even more so for a Labour government. More substantively, he may have erred in concentrating first on the easier options, like financial deregulation, rather than on structural problems in industry and labour.

But this should be matched against his real successes. Protective barriers and regulations in many sectors were removed, the currency was freely floated, public sector monoliths were either fully or partially privatised, public spending was reined in. For the first time in 35 years a budget surplus was recorded in 1987-88 and will be repeated in the current year. A radical shift from direct to indirect taxation has been accomplished. The annual rate of increase in price inflation, once the national scourge, is around 5 per cent and falling.

What Mr Douglas has not delivered is an instant economic miracle. By focusing on the inflationary threat and maintaining extremely tight fiscal and monetary policies with the concomitant high exchange rate, New Zealand has fallen into deep recession. Real gross domestic product fell by 1 per cent in 1987, entirely due to a collapse in net exports. High interest and exchange rates, declining real earnings and feeble investment make zero growth likely for 1988. Meanwhile, its main trading partners, with more flexible policies but generally higher inflation, bowl along in one of the longest periods of sustained economic expansion since the war. Compounding this, restructuring the economy has involved substantial job losses.

Like all radical economic medicines Mr Douglas's policies needed time. In New Zealand as in Australia, time is denied by the ludicrously short three-year electoral term. Mr Lange has to be back at the polls by August 1990 which is not long, viewed from the bottom of a recession and the wrong side of the opinion polls. It would be a pity if political calculations were to interrupt the acute but necessary pain of recovery only to return New Zealand to chronic ill health.

Disclosure in life assurance

IN IMPLEMENTING the decision by Lord Young, Britain's Trade Secretary, to enforce disclosure of life assurance commissions by independent financial advisers, the Securities and Investments Board has only slightly pulled its punches. Its proposals are highly welcome. But it has to be said that there are important practical risks, not least because the life industry will have to face the consequences of complying with the law of agency, which it has evaded for so long.

Disclosure will be in the form of a percentage of premiums and will be included in a document to be sent to clients up to 14 days after the original sale. This is a marginally less "hard" form of disclosure than the detailing of a cash figure at the point of sale, which is required at present when intermediaries sell the policies of life companies that pay commissions at above the scale approved by the life industry's self-regulatory organisation, Lautro. But it is much less attractive to the life industry than the "soft" disclosure which must be abandoned at the end of next year. This only requires a general statement that the level of commission is in line with the official scale.

Far-reaching impact

The proposals do not officially come into effect until the beginning of 1990, but their impact could be swift and far-reaching. Already Norwich Union has abandoned the purist stance of Camifa, the Campaign for Independent Financial Advice, and will sell policies through tied agents as well as independent intermediaries. There could now be an undignified scramble to sign up independent outlets.

Not only is this likely to reduce greatly the availability of independent advice to the public but the effective level of commissions could take a leap. There have been unconfirmed but persistent rumours that building societies and other large intermediaries agreeing to tie to individual life companies have been offered commissions of up to 170 per cent of the Lautro scale for endowment mortgage contracts and a sharp upsurge in commission levels is apparently inevitable.

There is bound to be an impression that regulation is backfiring. An investor protection regime that raises costs and reduces choice is scarcely doing investors much good. But independent advisers who are really doing an excellent job as agents of the public will survive and prosper. However, life assurance is a paradoxical industry. Increased competition can have the effect of pushing up the benefits of intermediaries rather than improving the returns to clients. Enforcing the agency law principle that agents should disclose their benefits to clients can give an important advantage to company salesmen or tied agents who can still claim their advice is "free."

Obscure charges

It is crucial, therefore, that there should be other elements to the SIB's new disclosure regime. For instance, steps must be taken to clean up the absurd proliferation of deliberately obscure charges on unit-linked life and pensions policies, where usually five and sometimes as many as nine different charges are imposed. For with-profits offices the proposed brochure setting out financial strength, bonus policy and other crucial information will be an important basis of assessment by professional advisers and the financial press. But it will be several years before such data can be made available on a comparable basis.

The SIB insists that it has no responsibility to control the level of commissions on life policies, which should be set by the life companies through the mechanism of market forces. But it must be possible for investors also to come to rational conclusions about the value for money they are being offered. Other things being equal, higher intermediary remuneration must imply lower returns to the client. The SIB has taken important steps towards greater transparency in a traditionally opaque industry. But it must be prepared to go further than its proposed occasional market survey of commission levels if the threatened scramble for business in the life industry proves to be damaging to the interests of investors.

Quentin Peel on the outlook for joint ventures in the Soviet Union

No meeting of minds yet

In the middle of the grief and confusion of the Armenian earthquake last week, it was inevitable that an important economic announcement by the Soviet Union's Council of Ministers should pass almost unnoticed.

At the best of times, few might have seized on the import of the long and wordy decree immediately. It was published in only one newspaper, and in the traditional style of Soviet proclamations, it buried all the real information way down the page. Yet it represents a crucial step on the long, hard road towards opening up the Soviet economy to the outside world.

News of a future 50 per cent devaluation in the trade-related exchange rate of the rouble was lost somewhere in the second column. And a series of concessions to improve the attractions of Soviet joint ventures for foreign investors came in the last few paragraphs.

The package of measures, approved one week earlier by the ruling Politburo of the Communist Party Central Committee, follows months of debate on how far the Soviet Union should swallow its pride, and relax its ideology, to attract foreign investment.

The package is also intended as a first move towards the ultimate and potentially traumatic goal of a convertible rouble – although that still remains a distant ambition.

Much remains to be clarified. It is not clear who will be allowed to take part in promised auctions of foreign currency, how the price will be fixed, and how much foreign currency will be available. It is equally unclear how many transactions the 50 per cent devaluation will affect, nor how a single trade-related exchange rate will replace the current maze of some 3,000 currency "co-efficients" which dictate the rouble price which Soviet enterprises have to pay for hard currency. Yet the concessions on joint ventures are reasonably clear:

● They abandon the previous insistence that foreign partners cannot take a majority shareholding (above 49 per cent) – and leave it to negotiation.

● They allow a foreigner to become the chairman or managing director for the first time. They also suggest a relaxation in Soviet labour laws, to allow freer hiring and firing and bonus payments.

● There is an offer of reduced customs tariffs on imported equipment for joint ventures and greater discretion for the Ministry of Finance to waive taxation on repatriated profits of the foreign partner.

● There is also permission for foreign partners to pay for the accommodation of foreign workers in roubles, and not in foreign currency.

The situation today for a foreign investor considering a joint venture in the Soviet Union is that practically everything is open for negotiation. The ground rules have been relaxed to the point where everything depends on the bargaining process. The Soviet leader, Mr Mikhail Gorbachev and his colleagues in the Politburo seem to be bending over backwards to attract joint venture partners. Why are they doing it, and will it work?

The truth is that in spite of enormous Soviet official enthusiasm for the concept of joint ventures, foreign partners have been slow to come forward. Declarations of intent have been signed for some 130 such ventures in the two years since they were permitted – but barely a dozen are operating.

A host of international seminars to promote the concept have produced a stream of apparently ungrateful foreign criticism and a dialogue of the deaf, with Soviet officials unable to answer, and often unable to understand complaints.

The truth is that many potential foreign partners feel themselves browbeaten and blackmailed into discussing joint ventures, when all they really want is a good old-fashioned export contract. In the old days, they might have had to settle for a barter deal. Today in Moscow, the first proposal always seems to be: What about a joint venture?

Joint ventures between partners of different social and economic systems are usually agreed upon only after years of co-operation, according to Mr Hans-Otto Thierbach, former director of Deutsche Bank, and chairman of a recent International Chamber of Commerce symposium in Helsinki. "In the Soviet Union, they seem to want the joint ventures before the co-operation."

From a Soviet point of view, joint ventures are attractive for a host of reasons. They bring useful Western knowhow, both technical and managerial. They bring Western standards of quality control, sorely lacking in the domestic economy, and they offer a chance to boost Soviet exports, or at least reduce imports, thus saving foreign exchange.

The Western partner's ambitions may well conflict with some of these. An obvious interest is to gain access to one of the last great untapped consumer markets. To that extent, the foreign partner is not really interested in exporting from the Soviet Union – except for the Soviet insistence that any joint venture must be self-sufficient in hard currency. To have any hard currency profits, the venture must sell for hard currency.

That remains the biggest single drawback for any potential joint venture in the Soviet Union. The only really successful ones to date are those able to operate in the rarefied world of hard currency sales inside the country – which means they are only operating on the fringes of the real Soviet economy. There are now joint venture hard currency shops in Moscow, hard currency restaurants, and the Irish-Soviet hard currency duty-free shops at Moscow and Leningrad airports. Their customers are either foreigners or the handful of Russians with access to foreign exchange.

Mr Alvar Ild, managing director of Eke-Sadolin, one of the very first joint ventures, producing wood varnishes in Estonia, admits that nothing has been exported in more than 12 months, although he is making large rouble profits from domestic sales. On the other hand, foreign currency costs have been higher than expected. For example, the only way for the joint venture to purchase Soviet cars, without waiting 18 months or more, was to pay in hard currency.

Mr Ild's biggest difficulty is quality of supplies. "To get raw materials and equipment from the Soviet market is very difficult. We are constantly in a seller's market. Unfortunately, some of our suppliers feel that quality plays no role. Yet they demand an international market price. You have to order certain things in advance – to be certain you will get it."

Those two problems – ensuring repatriation of profits in hard currency and ensuring reliability of supplies from Soviet sources used to operating in a centralised, state-planned system – are not answered by the latest measures. Nor do they tackle another profound cause of potential friction: differing standards of accountancy. Mr Oleg Valerius, director of the joint ventures department of Inaudit, the Soviet state auditing body, insists that there are no significant differences. However it is clear, for example, that Soviet concepts of depreciation are quite different (Soviet machinery is not written off for years), profit is almost invariably simply cash profit, and the concept of bankruptcy still does not exist.

Soviet officials say their rules for joint ventures are now thoroughly permissive: practically everything is open to negotiation, including the exchange rate used, the tax rate on profits, the share participation, and so on. Ironically, their Western partners might prefer more to be laid down in black and white.

There remains a cultural divide between Soviet officialdom, accustomed to working in a closed economy, and Western businessmen, bringing their own familiar concepts of profit and loss, prices reflecting costs, and the like. The latest Soviet rules amount to a big ideological concession, but they do not tackle the basic misunderstandings.

BOOK REVIEW

The man they love to hate

GYLLENHAMMAR
By Henric Borgström and Martin Haag
Bonniers of Stockholm, SKr200

Mr Pehr Gyllenhammar, the charismatic head of the Volvo company for the past 17 years, is a man who arouses mixed feelings among his fellow Swedes.

To the admiring international business world he is regarded as the quintessential Swedish employer. He possesses a strong human concern for the welfare of those who work for him on the car production lines, an idealistic enthusiasm for the market economy tempered by a sense of social justice, and a canny ability to operate with, rather than against, the grain of the all-powerful Social Democratic establishment.

With an obvious relish for the public arena, Mr Gyllenhammar is seen as the country's progressive visionary, more of an imperious industrial statesman than a narrow-minded entrepreneur with an overriding concern for making money.

But, as this well-researched and highly informative biography of Sweden's foremost employer makes clear, Mr Gyllenhammar (very much like the late Olof Palme) often finds that his greatest admirers do not live in Sweden. Reaching the top of Volvo at only 36 years of age, as the son-in-law of the outgoing boss, he arouses a mixture of envy and hostility among many Swedes, particularly those working in the media. When the biography, written by two of the country's better business journalists, was first published in Sweden this autumn, the revelation that aroused most public interest was the size of his salary and the fact that half of it comes from the royalties out of Volvo's profits. At around £400,000 a year, it is not high by international car employer standards. And, of course, over three quarters of that goes to the state. Mr Gyllenhammar is one of Sweden's biggest taxpayers.

The Volvo boss may be admired by many, even fawned upon by some, but there remains an unmistakable and rather distasteful undercurrent of resentment against him in a country where capitalism may be efficient and profitable, but personal entrepreneurial success is still regarded with suspicion as an affront to Sweden's supposed egalitarian ideals.

Perhaps the problem is, as the book makes very obvious, that Mr Gyllenhammar simply likes to win – and always be number one – whether in business or when he indulges in his favourite pastime of sailing. The sympathetic biography does not suggest that he is in any sense a tyrant. But there is certainly more than a touch of the enlightened despot about his long reign at Volvo. Nobody can have any doubts about who has been running the company since 1971, though his recruitment policy has created an impressive cadre of managers below him.

Indeed, there is something remarkably un-Swedish about Mr Gyllenhammar. He remains something of an impetuous romantic who is prepared to take bold initiatives that have sometimes appeared to lead Volvo to the brink of disaster, such as the company's foray into Norway in the late 1970s and its efforts in the oil business. But on other occasions he has given Volvo a badly needed shot in the arm, like the 1981 acquisition of the Beijer investment group that took the company into the profitable food processing sector.

Other Swedish industrialists have mixed views about him, as he has about them. The competitive rivalry with the powerful Wallenberg family runs as a leitmotiv through much of the book. Despite having good personal relations with the ruling Social Democrats, as well as the leaders of the powerful trade union movement, Mr Gyllenhammar has become an eloquent critic of national centralised wage bargaining. Indeed, he led the boardroom revolt of the early 1980s against the hallowed system – much to the annoyance of Sweden's employers' organisation, SAF, which has seen much of its power over member companies ebb away in recent years. But then Mr Gyllenhammar has little time for trying to prop up what he sees as a method of wage bargaining that no longer makes any economic sense, at least to Volvo.

On balance, Mr Gyllenhammar should be pleased with the biography, though it is far from being hagiographic. Indeed, in a sober conclusion, the authors question whether Volvo might not have performed much better over the past 17 years under somebody else. They decline to give a decisive answer, though the company's results over the past few years have been excellent. They argue that he needs Volvo as the platform from which he can speak out for the wider aspirations of Swedish industry in the international business world.

In fact, the man and the company have found that a sense of mutual self-interest has been of benefit to both of them. But as a result, the biography points out, there is a deep ambiguity about Mr Gyllenhammar – making him one of the most popular men in Sweden but also one of the most distrusted.

Robert Taylor

Correction: The last sentence of John Lloyd's book review last Thursday should have read: "But insofar as it is possible for the West to assist this process [of perestroika], it should note the obvious and less obvious risks and do so."

OBSERVER

The Queen's fleet

■ There is one person who can upstage the Queen, and it is not the Prime Minister; it is the Queen Mother.

There were also some very senior people in the City yesterday who had not gone, as they may have said, to visit a sick aunt in Wiltshire. They were at a party in Southampton.

It was the Queen Mother's idea. Just over 50 years ago she launched the original Queen Elizabeth at Clydebank when she was herself Queen Elizabeth. Half a century later she wanted a celebration.

Since there is no longer a QE1, she made do with the QE2. The higher gossip has it that the Queen was slightly miffed: she regards the QE2 as her own territory because it was she who launched it. There will be another party in about 18 months' times to commemorate that. The Queen will preside.

All of which is good news for Trafalgar House, the company that bought Cunard and, with it, the royally-named liner tradition some years ago.

In the US, says a top director, you have to promote the firm in inverse proportion to its real weight. The QE2 comes first because everybody has heard of it. Then there is Cunard which still rings a bell. After that there is Trafalgar House. What is this obscure property company? Americans ask. That, says the director, can take some explaining.

Still, the Royals love it. The Queen Mother not only decided that the party should take place; she chose the luncheon menu – all five courses, including a dessert of Black and White Chocolate Mousse with Liqueur Sauce.

She recalled that when she launched the Queen Elizabeth all those years ago, Neville Chamberlain flew to Munich the next day. She was being kept in touch with developments throughout. But there was almost a disaster of another kind. "The great ship," she said, "showed that it had a mind of its own even then." It almost slipped its moorings as she was stepping on board.

After the war, she continued to regard the ship as very much her own. Captain W J Lloyd, one of only three people to have captained the Queen Elizabeth, the Queen Mary and the QE2, remembers looking after her on a voyage to the US just after she became Queen Mother. One of her aides took the captain to his cabin and said: "She's all yours." It meant walking her round the decks in the daytime and taking her to the movies in the evening. She always changed the suggested time, but was otherwise very accommodating.

At first she found it difficult talking to the Americans who, even then, tended to dominate world cruises. Somebody told her that you just say: "Where are you from?" and then the conversation flows. She learned the lesson.

The same captain, now retired, was invited to take part in the QE2's first world cruise in 1982. He left the ship briefly in New York, then found that it had departed to the Falklands War with his dinner jacket on board. It was returned several months later.

The QE2 docked at Southampton at 8 am yesterday. It was due to sail again at 4 pm. Any City people who fail to turn up in their offices this morning may well be on their way to America by mistake.

Alas poor Queen, however. When one thinks of all the events she attends that she cannot much want to, it seems a pity that she cannot go to a party on her ship because her mother got in first. Perhaps the next party will be even better.

"I thought I'd run this idea up the flagpole in case anyone saluted it."

Old pals

■ Do not go to Southampton from central London by the A3 to Portsmouth. It may look quicker on the map, but it is not. If you have a driver who insists on the A3, overrule him. But you may also be lucky. We were stopped for speeding. No charge was brought because both the policeman on the motorbike and the driver turned out to have been members of the Grenadier Guards.

Plumb in court

■ In January the European Parliament office in London is at last to have a new head in Martin Bond, a long time official of the EC Council of Ministers who took time out from serving EC governments to be the BBC's Berlin correspondent for a spell in the mid-1980s.

His – or indeed any – appointment comes none too soon. Six months may be scarcely time enough to whip up even a modicum of interest in next June's European Parliament elections. What is more, the Parliament's London office has been headless for a good two years, during which time law suits have begun to fly.

The litigant is Jack Hanning, the press officer for the Council of Europe (the step-sister organisation to the EC). He won a competitive selection for the London job last year (Bond was not then a candidate), was invited for a medical examination as a formality prior to being awarded the job, but was then mysteriously deselected. The job was then readvertised.

The defendant is Lord Plumb, in his capacity as European Parliament President, though perhaps still better known at home as a former leader of the National Farmers' Union. He has naturally taken a close interest in his institution's London representation.

Hanning says he intends to pursue his complaint. Thus, we now have the gobbledeygook situation of the 22-nation Council of Europe's chief English press officer, who feeds the British media with news about the Strasbourg-based European Court of Human Rights, himself taking the 12 nation European Parliament to the Luxembourg-based European Court of Justice. It might even move quite fast, for in Hanning's case the European Court is the court of first appeal.

Market logic

■ Sign in the window of a Birmingham shop: "This is a non-profit-making organisation. That is why we are closing."

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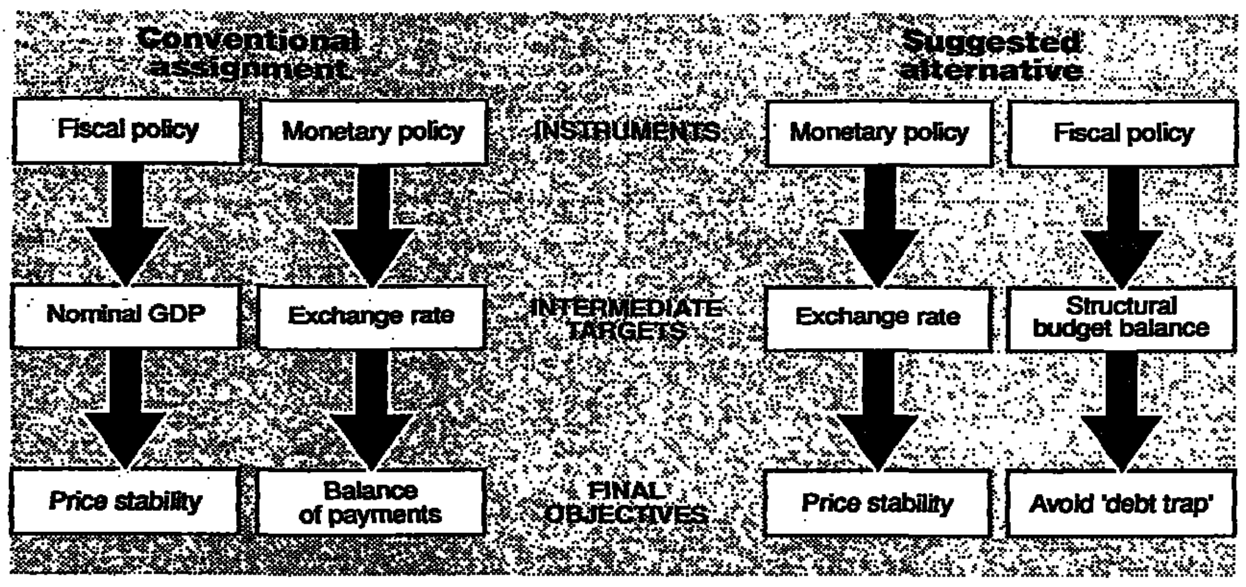
ECONOMIC VIEWPOINT

Instruments and objectives

By Samuel Brittan



The health warning on Economic Viewpoint this week reads: "This is a theoretical article." Nevertheless, it stems from a very vigorous current policy debate; and there is quite a bit to say before reaching the hard-core theory.

For the starting point is the frequent complaint that the British Chancellor is trying to run the economy with only one instrument, interest rates. By contrast, his critics say, a complex modern economy needs several instruments if it is not to be hurled on to the rocks. Indeed, such remarks are almost a cliché of business conversation.

At one level, such remarks are not worth much attention. For they stem from the collectivist fallacy that the Government runs the economy. The vision is of a giant Gosplan, steering business activity into directions which the Government decides is good for us. To attempt any such project, many other instruments apart from monetary policy would, of course, be required. But if this is not what you want, it would be better to think twice before calling for more and more instruments.

* * * *

There is, however, one matter of presentation in which the Chancellor and Governor of the Bank of England are at fault; and that is in talking too much about interest rates instead of "monetary policy". (The Prime Minister escapes the stricture by not descending to this level of detail.)

The key operational decision made by central banks is on the terms at which they supply reserves to the commercial banks. They can decide on a quantity of reserves and allow the market to determine short-term interest rates. Alternatively, they can fix the interest rates at which they will lend and leave the commercial banks to determine how much they want to hold by way of reserves.

The Bank of England, and many other central banks, believe that fixing their lending rates from day to day works better in practice; John Flemming touches on why this is so in his chapter in Keynes and Economic Policy (edited by Eltis and Sinclair, Macmillan £35).

But despite the techniques used, it is quite misleading to suppose that a central bank can determine real or even nominal interest rates in anything but the short end of the market, and even there in the very short run.

Long-term interest rates are entirely determined by market forces, even from day to day. Among the forces which determine how high or how low a country's long-term interest rates are, relative to the world average, by far the most important is expectations about inflation.

Such expectations work their way into short-term rates too before long. If the Bank of England attempted an ultra-cheap money policy during a period of inflationary pressure, any success in lowering interest rates would be temporary; and by one route or another the Bank would be compelled to reverse its policies and raise even short-term interest rates to a level corresponding to inflationary expectations, if it is to avoid currency collapse.

Despite the fact that their immediate instrument is short-term interest rates, finance ministers and central bankers would therefore do better if they spoke simply of "monetary policy" and did not play into the hands of the *dirigistes* by speaking as if they possessed powers which they do not actually have.

* * * *

There is, however, an objection to the *Chancellor's* policy, which has nothing to do with presentation, is not intended to be collectivist, needs to be taken seriously, but is still misplaced.

The objection starts from a fundamental doctrine of macroeconomics. This states that the number of policy instruments needs to be equal to the number of policy objectives. It is also easier for governments, or their advisers, to formulate their strategies, and for the rest of us to see what is intended, if each policy instrument is assigned primarily to one objective.

For instance, in main-stream British post-war Keynesianism, fiscal policy was assigned the task of maintaining full but not overfull employment. Incomes policy was assigned the task of containing inflation.

It is now, however, common ground among monetarists and many new-style Keynesians that fiscal policy cannot contribute much to output and employment, except by avoiding major errors and shocks. In his 1984 Mais Lecture, Nigel Lawson stated that the main task of promoting growth and employment rested with supply side policies. Although sensational – and even shocking to those stuck in the mold of the 1960s – the

If Group of Seven nations were to balance their budgets they would make a big contribution

Mais Lecture was old hat to those who had been following the underlying policy debate.

Differences remain, however, on overall financial policy, even among those who have escaped from post-war methods of thinking. No two economists would assign instruments and objectives in exactly the same way. But one mainstream view is shown on the left of the chart.

On this view, the management of demand is assigned to fiscal policy. The size of the Budget deficit or surplus influences the growth of the national income in nominal terms. In the short-term, output and employment might be affected, but ultimately these are determined by the underlying properties of the economy. The ultimate effect of too loose a fiscal policy, which raises national income growth too far, will be to generate inflation. On the other hand, a sufficiently restrictive fiscal policy will lead to price stability.

The job of monetary policy is then to manage the exchange rate. Higher interest rates will, other things being equal, lead to an appreciation of sterling, and lower interest rates to a depreciation. The exchange rate in its turn is used to secure some target objective for the current balance of payments. In more sophisticated presentations, this need not be zero, but will be based on some view of what is appropriate or can be financed.

Mainstream economists thus believe that the British Chancellor is obviously one instrument short. Even if he disclaims any target for the balance of payments, he is known to be interested in the exchange rate. If he wants to maintain an exchange rate objective, he needs, it is said, another instrument to manage home demand.

Exponents of this view often forget that fiscal policy has not been neglected, and that the Budget has swung in the last two years from deficit into surplus by an amount corresponding to 4 per cent of gross domestic product. Nevertheless, up to now the Chancellor has not been prepared to go beyond the so-called "automatic stabilisers" – that is, *the automatic* tendency for the Budget to move towards surplus in boom and deficit in recession. Unless he is prepared to allow Budgets to swing almost indefinitely into surplus and deficit he is, according to the critics, inadequately armed. The right hand of the chart suggests why this criticism is misplaced. For it is perfectly possible to use monetary policy, either directly or via the exchange rate, as the main instrument for countering inflation without a hyper-activist fiscal policy. The nature of the inflation objective then determines the exchange rate goal.

The objective may be simply to maintain a broad stability in the prices of internationally-traded products, and allow prices of non-traded services, where productivity rises less fast, to creep upwards. (This what Japan achieved during its period of most rapid growth.) In that case it is sufficient to maintain a stable exchange rate against sound money countries such as Germany.

If the goal, however, is literal stability of the Retail Prices Index – which is not all that sensible – then a long term appreciation of sterling would be required. On either interpretation, the balance of payments is left to look after itself. The safety catch is provided by an appropriately chosen sterling objective – which need not be a single number but can, in fact, be an adjustable range.

My case against using discretionary fiscal policy for demand management is not ideological. Nor is it even based on the well-known objections to fiscal fine-tuning. The main reason is that fiscal policy has a separate job to do. The respectable definition of this job is something like "follow a national wealth objective", "compensate for the deficiencies of private sector savings", "boost the investment ratio" or some related goal. And indeed these are all objectives which retain the nugget of sense in balance of payments worries, without being so foolish as to target the current balance directly. The snag is that, not only are the data not good enough to use any of these criteria for short-term policy, it is far from clear that governments would make particularly far-sighted choices in such matters. *If*, instead of anything so ambitious, the governments of the Group of Seven countries were just to balance their budgets in normal non-recession years (as only the UK has done) they would be making a bigger contribution to world savings and investment than by attempting any conscious policy of boosting savings ratios. Strictly speaking, a balanced Budget is more than is necessary to avoid a debt trap in the UK. The target of balance leaves scope for some reduction the debt to GDP ratio and thus a reduction in the interest element in public expenditure. It is also a cushion against economic shocks or budgetary overruns.

Although one can envisage better rules for fiscal policy than a long term Budget balance, most countries will be fortunate if they can even do as well.

LOMBARD

False economy on statistics

By Simon Holberton

It is a conceit of Mr Francis Maude, Britain's junior trade minister, to cloak himself in the garb of the defender of business interests. He is, in fact, the unwitting enemy of those interests.

Perhaps on the Edwina Currie theory (any publicity is good publicity), Mr Maude launched a vigorous attack on those who worry about the state of UK economic figures at a statistics' users conference

He sought to comfort those economic analysts and commentators who concern themselves with problems such as "sector balancing items, GDP discrepancies and the effects of the postal dispute on monthly trade figures" by pointing out the substantial inaccuracies of early 18th century import records due to smuggling.

It is interesting that Mr Maude should cite these problems. With the exception of the postal dispute effect on trade figures, they were the very same to which the Treasury turned its attention in an annex to the Chancellor's Autumn Economic Statement.

The Treasury was forced to confess that the unreliability of the National Accounts were such that it was "difficult to assess how strongly the UK economy has grown over the past two years".

The difference between the output measure and the expenditure measure of GDP was, by the second half of this year, equal to nearly 4 percentage points of GDP. The balancing item in the trade statistics, for which Mr Maude reminded his audience he has ministerial responsibility, was £9bn in the first half of 1988, meaning the UK may not have a current account deficit at all.

This appears to be of little concern to Mr Maude. He concedes the Government's need for information on the behaviour of the economy, but says: "For a Government which does not believe in interference in individual markets there is bound to be a question about the need for detailed disaggregated data."

This is the nub of Mr Maude's argument. The Government is committed to relieving the administrative burden from the shoulders of industry. He fails to recognise, however, that the law of diminishing returns has set in.

There seems little point in relieving the administrative burden from industry if its result is to leave Government and business wholly in the dark as to what is happening to the economy. As many economists have pointed out recently, it is of little use knowing that Britain grew by 5 per cent if one does not know the composition of that growth. If Government and industry are ignorant of the composition of growth, targeting policy and making business decisions becomes more difficult.

Mr Maude is not concerned with this. He even wonders whether the Government needs to provide a statistical service to industry at all, oblivious to the potential costs to industry through duplication if individual companies and industries have to collect the data the Government decides it will not.

With the advent of 1992 he asked whether we need country trade figures at all. America does not need inter-state trade figures, so why should the European Community.

The simple answer is that the US has economic, monetary and political union. It is a nation state possessed of a single currency. One trades with the US, not Vermont. None of these conditions will be met by the 1992 single market reforms.

To be sure, there are discussions under way in the Delors Committee on the shape and content of a programme for economic and monetary union, but even the most zealous Europhile would agree that moves in that direction will be slow and painful.

The most optimistic assessments of monetary union see it as a possibility around the turn of the century; few are willing to hazard a guess on political union, least of all the British Government. Mr Maude has clearly been deficient in his study of the Prime Minister's recent speeches on EC matters.

An internal Treasury review of the Government's collection of statistics has just been completed. A parallel DTI inquiry (an efficient use of taxpayer's money?) is nearing completion. When Whitehall concludes its deliberations it is hoped the Government will decide to pay more attention to the quality of what it has an overriding responsibility to produce.

LETTERS

Tax cuts impact compared

From Mr Lawrence M. Stratton, Jr.

Sir, Michael Prowse is mistaken to claim that there is no "convincing evidence of the benefits of tax cuts." (Lombard, December 2).

The US is experiencing a six-year expansion with no rise in the rate of inflation. The civilian unemployment rate has fallen to 5.3 per cent, the lowest in 14 years. Orthodox economists such as Allen Sinai, Andrew Lin, and Russell Robins have concluded from their empirical studies that "the evidence indicates that ERTA (the Economic Recovery Tax Act of 1981) has had a major impact on US economic growth."

If tax cuts only benefit the rich (as Michael Prowse claims), George Bush – who ran on a supply-side platform of lower capital gains taxes and no tax increases – would never have been elected President by 54 per cent of the American electorate.

Perhaps Mr Prowse's real motivation is that the rich should pay higher taxes even if the higher taxes have a negative economic impact on everyone.

Lawrence M. Stratton, Jr,
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Only a toehold

From Mr Ian Bayley.

Sir, I recently returned from a lecture tour in Japan. Compared with two years ago, there has been a noticeable increase in the availability of foreign products, notably from the US, Germany and France.

But I had the utmost difficulty finding anything like the same number of English brand names. We do not seem to have more than a toehold in the marketplace.

Ian Bayley,
152 Harley Street, W1

Trading conduit from Eastern Europe to the EC

From Mr J.R. Wilson.

Sir, David Goodhart's excellent article (December 7) on German anxieties over the Single European Market missed one crucial point: the effects of the special relationship between East and West Germany and, in turn, the effects of this relationship on intra-Community trade.

The legal framework governing trade between East and West Germany means that trade between the German Democratic Republic and the Federal Republic of Germany is regarded as domestic trade within Germany. (This explains why East Germany has become know as the "13th member state" of the EC.)

The customs and fiscal arrangements applied in West Germany also give positive financial advantages to goods traded via West Germany rather then exported direct from East Germany; for example, imports from East Germany are exempt from import duty and VAT.

These advantages have encouraged a high level of imports from East Germany into West Germany, and there is considerable doubt as to whether the correct duty is then paid on these goods when they pass into free circulation from West Germany. No other East European country enjoys such benefits with West Germany, but of course they may take advantage of East Germany's unique position by exporting to West Germany via East Germany.

This situation has enormous implications for other EC member states when the Single Market comes into being in 1992.

While it is impossible to quantify the amount of UK imports from West Germany which originated in East Germany and other East European countries, it is estimated by the UK clothing industry that it could be as high as 20 per cent. Border controls in the European Community on goods in free circulation are already limited in nature. They will become even more cursory after 1992. Because of the absence of controls between West and East Germany, East German goods (and probably goods from the rest of Eastern Europe) will have almost unfettered access to the whole of the rest of the EC.

This is an area of vital importance to British industry generally. It needs careful consideration and action from Her Majesty's Government to ensure that there is an effective frontier between the Single European Market and Eastern Europe, where the policy of political pricing means that the prices of goods bear little relationship to the actual costs of manufacturers.

J.R. Wilson,
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British Apparel Centre,
7 Swallow Place, W1

EC anti-dumping policy: 'un chat est un chat'

From Mr Patrick Messerlin.

Sir, Commissioner de Clercq argues that the anti-dumping policy of the European Community is a way of ensuring fair practice, not protectionism (November 21). I leave the first assertion to lawyers, and concentrate on the second.

The evidence leaves little doubt: many EC anti-dumping cases end up with trade barriers that can easily be converted into their equivalent *ad valorem* duties: the additional protection granted is 23 per cent, three times the average EC tariff on manufactures. Almost one half of the cases is terminated by price undertakings between foreign and EC firms.

Mr de Clercq does not consider undertakings to be protective devices, but they are commitments by foreign firms either to increase their prices or to restrict their exports. As a result, they have increased the average import prices into the EC by 15 per cent, twice the average EC tariff in manufactures. Only a little more than a quarter of the cases ends up with no official measures.

Additional costs of protection are imposed on the European consumers by the instruments – as well as the undertakings – to which EC anti-dumping policy has resorted.

For the foreign firm, an undertaking means that it sells less, but at a higher price per unit. In this way foreign firms collect an artificial scarcity rent and European consumers are compelled to finance the growth of the most successful foreign competitors.

For the small number of EC firms which initiate by far the greater number of the cases (Montedison, ENI, BP, Hoechst and Pechiney in chemicals, Thomson, Philips and Olivetti in electronics, Thyssen, Peine-Salzgitter and Usinor in steel), undertakings offer the possibility of price collusion in EC markets: under these price umbrellas, EC firms can extract rents from European consumers.

Mr de Clercq says that anti-dumping measures increase competition. The complete opposite is the case, because these measures often exclude small competitors.

Fifty per cent of the countries caught in the 1980-1985 cases hold less than 5 per cent of the EC markets concerned. For instance, anti-dumping measures were recently imposed on EC imports of Trinidadian urea (0.3 per cent of the EC market), Mexican steel (2 per cent) and Korean video cassette recorders (6 per cent of the Community of Ten). The list is long.

Anti-dumping measures are a way of using complex backroom computations to raise EC protection. That they may be Gatt (General Agreement on Tariffs and Trade) consistent is not the issue. The issue is whether Europeans want to raise their tariffs to protect the industries concerned.

To leave this crucial question to a purely bureaucratic mechanism rather than give it higher level consideration is a step backwards for the EC – not an advance to "fairer" trade. It is one for which each citizen of the EC is paying a high price.

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FINANCIAL TIMES
Thursday December 15 1988

Armenia takes added strain of rift with Soviets

By John Lloyd in Moscow

FRESH evidence emerged yesterday of a sharp deterioration in relations between the Soviet authorities and the Armenian nationalist movement since the earthquake which devastated the republic last week.

A large crowd turned out yesterday for the funeral in Yerevan, the Armenian capital, of a man who was crushed by a Soviet tank, apparently during a demonstration which was broken up by force on Sunday at the city's railway station.

Mr Gennady Gerasimov, the chief foreign affairs spokesman, said yesterday that the authorities are currently detaining six activists of the republic's national movement, which for much of the year has been holding well-attended rallies.

At least 15 senior activists have been detained for varying periods, including five members of the Karabakh committee – the group which has coordinated the nationalist movement – who were arrested on Saturday.

Karabakh committee supporters said there had been fresh arrests yesterday, and that two women were among the detainees.

The detainees have included two members of the Armenian Supreme Soviet, Mr Ashod Manouncharian and Mr Khatchik Stamboltsian, though it appears that at least the former has been released.

The arrests, and the violent break-up of demonstrations at the weekend, contrast sharply with the restraint shown both by the authorities and the demonstrators since huge rallies began to be staged in Yerevan in February.

The sharp deterioration in the republic's political climate appeared to bode ill for the chances of normality being restored once early earthquake relief work is completed.

The current wave of arrests followed allegations at the weekend by the Karabakh committee that thousands of Armenian children orphaned in the earthquake were to be sent to other republics. The allegations, bitterly denounced by Mr Mikhail Gorbachev, Soviet President, after an appeal by Moscow Radio for Muscovites to adopt Armenian children.

Mr Eduard Aikazyan, the Armenian Government representative at the USSR Council of Ministers, denied that Armenain children were being sent outside the republic for adoption or for long periods.

Mr Aikazyan, toning down bitter criticism by Mr Gorbachev, also conceded that not all members of the Karabakh committeewere "adventurists."

Mr Aikazyan added, however: "At a time when all Armenian people are directing their effort at eliminating the consequences of the earthquake, some people are seeking to raise issues of inter-ethnic relations and thus divert attention from the solution of the principal problem."

Aid to Armenia, Soviet troop cuts, Page 2.

EC farm auditors ask 'Where's the beef?'

Tim Dickson looks at the latest evidence on the extent of trading subsidies fraud

THE European Community's Court of Auditors – the EC's main financial watchdog – has finally blown the whistle.

Until this week it was still possible to dismiss allegations of Common Agricultural Policy (CAP) fraud as a series of isolated and relatively minor examples – the inevitable consequence of a complex subsidy system, the purpose of which, to support European farmers, was broadly being served.

Tuesday's 300-page report from the Luxembourg based auditors, however – a thorough and carefully documented piece of work reviewing the 1987 financial year as a whole – raises the probability that the size of the misappropriations is much larger than hitherto imagined, certainly running into tens of millions and possibly into hundreds of millions of dollars.

The key evidence for the court's claims are based on a survey by the investigators carried out in Britain, Ireland, France and Denmark into the payment of so called export refunds in the beef sector.

These subsidies are designed to bridge the gap between world market prices and generally higher, protected EC prices, thereby enabling the Community to sell its surplus output to other countries. They are paid to traders in many other sectors besides meat and represent the lion's share of EC agricultural spending – more than Ecu 9.37bn ($10.3bn)in 1987, or 41 per cent of the total – in any year.

According to the findings, large sums of money are being "irregularly" claimed by unscrupulous traders exploiting the absence of effective port and customs controls in the member states and at "third country" destinations where the product supposedly arrives.

While the study concentrates mostly on beef – citing individual cases worth almost Ecu 50m to the perpetrators – the clear implication of the conclusions (backed up by a stream of anecdotal evidence in Brussels) is that the same sort of abuses are as widespread in other sectors.

The significance of all this goes well beyond the shock headlines of chicken scraps being passed off as beef, or beef imports being labelled as veal (the latter a trick to avoid hefty import duties). It raises fundamental questions about the whole erratic, piecemeal and blatantly political development of the CAP, and about the effectiveness of financial controls provided by Brussels and national capitals over the range of Community policies.

Mr John MacGregor, Britain's Agriculture Minister, yesterday put his finger on one of the fundamental problems when he said that the "crucial thing is to think EC farm schemes through properly so that they are not open to manipulation by fraudsters."

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He said that he was intending to use this argument to attack the controversial proposal at this week's meeting of EC Farm Ministers for a new Brussels payment to encourage animal feed processors to use more domestically produced cereals in their products.

In fact the EC's Council of Ministers has conspired to construct an edifice of supports and regulations which have frequently been the subject of what might be termed "legitimate abuse."

One notorious example, sometimes cited in the corridors of the Commission, related to an earlier set of rules for claiming subsidies on the export of beef "carcasses." The way these were written provided a loophole which enabled West German exporters in particular to pack up what amounted to little more than bones and vertebrae (with precious little meat), send them abroad, and claim the export refunds in the process.

Far from immediately discouraging what to Brussels seemed a clear breach of the spirit of the rules, Bonn insisted on waiting until the text of the regulation was subsequently changed.

The reaction of the European Commission – both in its replies published in the Court of Auditors report and in the comments of officials yesterday – has been surprisingly frank. There is justifiable irritation, however, at the way in which the criticisms have been directed mainly at the Brussels bureacracy and not at member states where the responsibility for checking largely lies.

"We are a soft target," one senior Commission official complained, conscious of the political capital which may be made by those sharing British Prime Minister Mrs Margaret Thatcher's well-publicised fears about the loss of national sovereignty.

The court rightly blames Brussels for failing to control and co-ordinate national procedures, but as things stand the Commission's hands are largely tied. It can ask questions and inspect the accounts of member states, but in cases where it suspects fraud, for example, it cannot send in its own flying squad to see if suspicions are justified.

As even one senior diplomat was prepared to admit yesterday, member states have an interest in keeping irregularities hidden, since the discovery of an illegal claim involves the repayment of funds from national capitals back to the European Commission.

The European Parliament and the incoming Agricultural Commissioner – widely rumoured to be the former Irish Finance Minister Mr Ray MacSharry – cannot fail to address these issues. But with at least Ecu 14bn due to be administered under the enlarged structural fund programme by 1993 – more than the total resources distributed by the World Bank – the questions go wider than simply the CAP.

THE LEX COLUMN

High rollers in the mining stakes

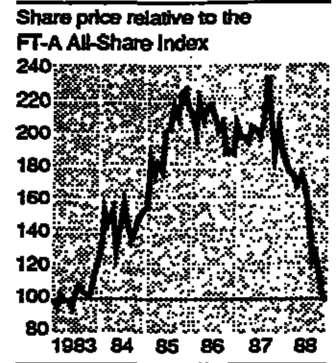
On one view, the proposed minerals deal between BP and RTZ shows both companies returning to their roots. RTZ may occasionally have presented itself as an industrial conglomerate in the past, but the recent behaviour of base metal prices has made minerals glamorous again, besides pushing their contribution to RTZ's profits up towards 75 per cent. BP, meanwhile, is plainly of the view that the base metals cycle is nearing its peak; and when the same is true of coal and animal feeds, they will doubtless go as well, leaving BP back where it started with oil, gas and petrochemicals.

With market guesses on the sale price anywhere from $3.5bn to $4.5bn, the immediate question is what BP plans to do with the cash. One rumour – that it plans to buy Unocal of the US to refine its Alaskan crude – seems wide of the mark. More to the point is the flexibility BP will have to tidy up the KIO stake, which has to come down from nearly 22 per cent to 9.9 per cent. BP might well prefer an elegant solution here, involving convertibles, trust funds or whatever. But in crude terms, there is nothing to stop BP buying in the lot, provided it does so at below the market price – not in itself impossible, given Kuwait's exemption from ACT, and neatly affordable from the likely proceeds of the minerals deal.

RTZ's balance sheet, meanwhile, is going to look decidedly stretched, despite its present net cash position. But the shares steadied yesterday after the rumours of the past week, on the theory that at worst the deal is likely to be financed by convertible. If BP is right about base metal prices, of course, the worry is that RTZ could be paying too much. The cynic might reply that if the past dealings of oil companies in mineral assets is a guide, prices should be about to go through the ceiling.

Coats Viyella

Share price relative to the FT-A All-Share Index



Reverse auction

What with rising continental European interest rates and the weakness of sterling, news of the Bank of England's planned £500m reverse gilt auction provided a useful distraction for a pretty demoralised UK gilt-edged market yesterday. However, too much should not be read into the move. The reason that UK gilt yields are currently well under 10 per cent has a lot to do with the steady official buying in of stock over the last year, and the latest move will not change this. For the Bank of England it will be a useful cash management tool in a heavy tax paying season, and for investors it helps remove some of the mystery about the authorities' actions in the market place. However, the more nervous investor might wish that the Bank had chosen a day other than Friday 13 to launch the experiment.

Coats Viyella

Nobody would deny that high interest rates and strong sterling have been making life tough for Coats Viyella, but Coats can scarcely claim to have a corner on the market for that particular kind of discomfort. The Chancellor's idea, surely, is to make most of British industry squirm – not just the likes of Coats, which has already shed half its market value in a year, along with a distressingly large proportion of its employees. So if Coats is squirming more than most, the market is entitled to ask whether it is truly only the victim of circumstance, or whether it was peculiarly well qualified for the role.

The answer, not surprisingly, seems to be a mixture of the two – but with the emphasis on the latter. Textiles, clearly, have an outsize problem with sterling; but sterling at these levels looks unlikely to prompt any of Coats' major competitors to produce the kind of sickening lurch in profits which Mr David Alliance predicted yesterday. Their mixture of domestic and foreign sourcing leaves them less exposed to the Chancellor's assaults, and many faced the pain of restructuring earlier than Mr Alliance could bear to.

The leaner, fitter Coats of the future will no doubt start attracting fans again at some point; but it seems doubtful that a prospective rating of 8.7 times earnings – even combinedwith a 9 per cent yield – will get them over their current disillusionment. Not so long ago, both Coats and Courtaulds looked like making £200m or so pre-tax this year; Courtaulds may still manage, but Coats is shooting for £127m. With Courtaulds on something like 6½ times prospective earnings, it scarcely looks a fair contest.

SIB

The market seems to have taken on board long ago that once the UK consumer can see how much a life insurance policy costs him, he may think it wise to consider other options. So the sector's rating already includes a fair dose of pessimism about future sales volumes. Even yesterday's bias from the SIB in favour of tied rather than independent advice gave the quoted sector little pause for thought. Those companies which have not already solved that problem are well on their way to doing so; and none faces the kind of distribution difficulties which the mutuals may have to tackle – with the help of building societies and even the odd bank which made the mistake of choosing independent status.

Polly Peck

The success of Polly Peck's recent rights issue and the strong performance of the shares over the last year indicates that the group's past mistakes are being forgotten, but a prospective multiple of less than 6 times earnings is a measure of how far the company still has to travel before it is accepted as a genuine growth company. Although the proportion of the group's turnover coming from Europe has jumped substantially over the last year, and the share from the Near East has more than halved, there still remains a certain uneasiness about the source and reliability of the Polly Peck profit streams. The decline in the glamorous margins of the agricultural businesses, which still contribute over three quarters of total profits, is a sign of the changing and more stable product mix. However, the wisdom of Polly Peck's push into consumer electronics is more debatable; despite its confident noises, this is one area where there could be some nasty surprises if the world economy begins to lose some of its surprising momentum.

Single-market plan for Europe's brokers

By David Buchan in Strasbourg

STOCKBROKERS based in one European Community state would get a single passport to provide portfolio management, marketing making and investment advice services to clients in all other EC states, if member governments endorse a new Commission proposal.

The investment services draft directive, approved by the Commission yesterday, aims to give securities houses the same single market privileges as Brussels has already proposed for banks.

It contains the same controversial foreign reciprocity provision as the Second Banking Directive. This would require foreign countries to guarantee the openness of their markets to EC securities firms, if new foreign stockbroking houses wanted to establish subsidiaries in the Community.

On the basis of home country control, a stockbroker based in one EC country would be able to join stock exchanges in other Community states and deal in money markets, exchange and interest rate instruments, and in financial futures and options – but not commodities – across the Community.

However, assuring a minimum Community-wide level of capital adequacy for securities houses is likley to be even harder than for banks.

Meanwhile, a wrangle over over the degree to which non-EC countries should be required to match European liberalisation led the European Commission yesterday to postpone a widely-anticipated life insurance move.

Mr Jacques Delors, the Commission president, argued that a further week's consideration was needed of a sensitive draft directive attaching foreign reciprocity conditions to insurance, as Brussels has already proposed for banking.

The reciprocity directive would require foreign countries to open their insurance markets to EC insurers to the extent that companies from those third countries wanted to establish new subsidiaries in the EC. Such foreign-owned subsidiaries would benefit from the Commission's eventual plan to permit the cross-border writing of all sorts of insurance risks.

EC governments have already approved a first step towards such liberalisation in non-life insurance large risks, and yesterday the Commission had been expected to adopt a draft directive allowing individuals in one EC state to seek "on their own initiative" life cover in other EC states. However, this move was also temporarily shelved, because of the reciprocity issue.

In requiring foreign reciprocity, the Commission's general aim is to send a political signal to Europe's negotiating partners in the Gatt Uruguay Round that the world market for services must be opened up.

Next year, the Commission plans to come up with draft directives liberalising the EC market for group pension schemes and life mass risks.

NZ Finance Minister sacked

Continued from Page 1

of personality differences which have created tensions within the ruling Labour Government for the past year.

At lunchtime yesterday, Mr Douglas, still smarting from the Prime Minister's veto on the renewal of a contract for his press secretary, informed fellow Labour members of Parliament that, if Mr Lange was re-elected at the annual leadership election next February, he, Mr Douglas, would not serve in his Cabinet.

Mr Lange immediately dismissed the Finance Minister and appointed Mr Caygill.

Mr Caygill, along with Mr Lange and deputy Prime Minister Geoffrey Palmer, were quick to try to reassure the financial markets and the country that, although the change of minister would mean a change of style and presentation, there would be no change in economic direction.

"A priority is to produce a budget where we live within our income. But there will be no change in substance. No return to a managed exchange rate. No different direction in our monetary policy," Mr Caygill said.

The new Finance Minister, who has worked closely with Mr Douglas in the past, was a strong supporter of the economic direction devised for New Zealand after Labour came to power in 1984. He has been a particularly keen advocate of the deregulation of financial markets and of the economy, which has produced widespread change within New Zealand.

It is these changes and the speedy implementation of free market policies, which have caused widespread unemployment, were implemented, that brought about the downfall of Mr Douglas.

For the first three-year term of the Labour Government, Mr Lange was seemingly content for Mr Douglas to introduce the new policies – which became known as Rogernomics – at breakneck speed.

After the Government's re-election with an increased majority in July last year, Mr Lange – under pressure from trade unions, leftist MPs and the Labour Party hierarchy, and aware of mounting public concern – became uneasy at the prospect of continued rising unemployment and the delay in producing the promised benefits of Rogernomics.

He wanted to slow the pace, but this was clearly unacceptable to Mr Douglas.

Spirits high as EC agrees on drinks rule

By Tim Dickson in Brussels

IT WAS a case of drinks all round in Brussels yesterday morning when the European Community's Agriculture Ministers put their names to a far reaching deal setting down new definitions for no less than 170 "spiritous beverages."

The historic agreement – restricting use of the words whisky, brandy and rum as well as a host of lesser known concoctions to recipes with a minimum alcoholic strength – ends more than six years of intense lobbying by sections of the European drinks industry and literally hundreds of hours of special pleading from experts in the member states.

The outcome is especially good news for the Scotch whisky industry, which has won its case that the distinctive flavour of this amber liquid can be achieved only with a minimum alcohol level of 40 degrees proof. Late on Tuesday night the Irish Minister Mr Michael O'Kennedy was holding out for a lower limit of 37½ per cent but after discussions with his UK opposite number Mr John MacGregor he appears to have given way.

Spirits were low when serious negotiations began for the (Scotch) whisky versus (Irish) whiskey problem was just one of several sensitive issues dividing the Council. Spain, France, and West Germany for example, were particularly exercised about rum, with Spain keen to defend the purest definition of the drink (no half measures) and France anxious to find a form of words which would protect producers in its overseas territories.

In the end France was granted a special specification for Rum Agricole while Rumverschnitt – a traditional West German liquor beloved of the locals but despised by others for only containing 5 per cent of the real thing – can continue to be marketed under this name in the Federal Republic if not in other member states of the Community.

National pride was also stake over the new rules for ouzo, grappa, Korn and Pacharan. But Greece, Italy, West Germany and Spain respectively all managed to convince their Community partners that drinks bearing these names could only be marketed domestically.

The complex package – which will not become EC law until it is approved by the European Parliament – left open the question of just one drink: the juniper flavoured Geneva which is a favourite tipple in Belgium and the Netherlands. The two Ministers remained divided over whether the minimum alcoholic strength should be 30 or 35 degrees proof – but they agreed to disagree and the European Commission was sent off to find a compromise before 1992.

● The Council's decision was welcomed by the Scotch Whisky Association which has lobbied hard for a generic definition of whisky, adds Lisa Wood in London. Mr Bill Bewsher, director general of the SWA which represents the big producers, said: "It means that Scotch whisky will now be officially recognised throughout the Community and its status as a quality product will be underpinned."

Weaker whiskies account for about 7 per cent of the UK whisky market and are also sold overseas by both UK and foreign bottlers. UK low strength producers include the Co-op Wholesale Society whose Arden House blended whisky retails at about £5.99 ($10.90) compared with more than £8 a bottle for a 40 per cent by alcohol brand such as The Famous Grouse.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	S	10	50	Malta	F	16	61	Rhodes	S	15	59
Algiers	C	13	55	Edinburgh	C	09	48	Manchester	C	09	48	Rio de J'o	S	39	102
Amsterdam	C	08	46	Faro	S	15	59	Manila	F	34	93	Rome	F	15	59
Athens	F	11	52	Florence	F	08	46	Melbourne	S	30	86	Salzburg	R	03	37
Bahrain	C	24	75	Frankfurt	C	07	45	Mexico City	S	23	73	San Francisco	F	19	67
Bangkok	F	30	86	Funchal	S	19	66	Miami	C	18	65	Seoul	C	-1	30
Barcelona	S	11	52	Geneva	F	07	45	Milan	S	02	36	Singapore	R	27	81
Beirut	R	17	63	Gibraltar	F	16	61	Montreal	C	-4	25	Stockholm	F	-2	28
Belfast	C	09	48	Glasgow	D	10	50	Moscow	C	-7	19	Strasbourg	C	07	45
Belgrade	C	05	43	Guernsey	C	11	52	Munich	R	02	36	Sydney	C	22	72
Berlin	R	03	37	Helsinki	F	-2	28	Nairobi	F	23	73	Taipei	F	21	70
Biarritz	S	08	46	H. Kong	S	20	68	Naples	F	12	54	Tangier	S	17	63
Bombay	S	30	86	Innsbruck	F	03	37	Nassau	F	26	79	Tel Aviv	R	20	68
Bordeaux	C	08	46	Inverness	C	09	48	New Delhi	F	26	79	Tenerife	S	22	72
Brussels	C	08	46	Islamabad	C	24	75	New York	C	-2	28	Tokyo	F	17	63
Budapest	C	05	41	Istanbul	C	09	48	Nice	S	13	55	Toronto	C	-2	28
B. Aires	F	25	77	Jakarta	R	32	90	Nicosia	F	20	68	Tunis	F	17	63
Cairo	F	19	66	Jersey	C	10	50	Oporto	S	12	54	Valencia	S	12	54
Cape Town	S	23	73	Jo'burg	C	22	72	Oslo	F	08	46	Venice	S	03	37
Caracas	C	23	73	Lima	F	25	77	Paris	C	09	47	Vienna	F	05	41
Casablanca	C	16	61	Lisbon	F	14	57	Peking	F	01	31	Warsaw	C	03	37
Chicago	C	06	42	London	C	11	52	Prague	C	02	35	Washington	F	-3	27
Cologne	C	07	45	Los Angeles	C	21	69	Reykjavik	C	09	48	Zurich	S	05	41
Copenhagen	F	07	45	Luxembourg	C	04	39								
Corfu	S	15	59	Madrid	F	10	50								
Dallas	F	07	45	Majorca	C	12	54								
Dublin	C	10	50	Malaga	S	14	57								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

German rates may rise

By Haig Simonian in Frankfurt

WEST GERMAN interest rates look set to rise today after the Bundesbank received bids of 5.0 to 5.5 per cent at yesterday's regular tender of securities repurchase agreements (repos). Repo rates are those charged by banks to lend securities for a pre-determined period to the central bank.

The bids, which were well up on the 4.7 to 4.95 per cent range recorded at last week's repo offering, reflect the recent sharp rise in short term German rates and suggest an increase from 5 to 5.5 per cent in the Lombard emergency funding rate after today's meeting of the Bundesbank's policy-making council.

The central bank has consistently tried to keep the Lombard rate above that for repos, which it has increasingly been using to steer short-term interest rates. Today's council meeting will also be considering West Germany's money supply target for next year.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 15 1988

INSIDE

Spain puts premium on naming names

The Spanish Finance Ministry has laid siege to the country's powerful banking and insurance community. It is demanding that insurance companies hand over the names of investors who, on the advice of their banks, paid up to Pta 1,500bn into one-off insurance premiums in 1986 and 1987 in order to escape high withholding taxes on bank deposits. The policies bought never actually insured anything but the rise in premiums completely distorted rankings in the insurance industry. Page 22

The land where cattle count

Personal wealth in Botswana, the fastest growing country in Africa, is still measured largely in terms of cattle. The country has three times more cattle than people, and trade in these animals remains the biggest export earner after mining. Nevertheless, the business is heavily subsidised by the Government, and critics believe profits have been made by a few at the expense of the population at large. Nicholas Woodsworth reports. Page 32

Out to stop brokers going soft

Ban soft dollars. That is the call facing Britain's Securities and Investments Board. Slumping stock market turnover in the UK and the US has opened a fierce debate over this system, which in effect gives money managers a partial rebate on commissions paid. Norma Cohen examines how some securities firms are pressing to have the concessionary practice between stock brokers and fund managers outlawed. Page 26

Polly peck tops £100m

Busy on the acquisition trail this year, Polly Peck International, the agricultural, electronics and textiles group headed by Mr Asil Nadir (left), reported pre-tax profits sharply up from £86.2m to £107.3m for the 53 weeks to September 3. Mr Nadir said yesterday that over £300m of turnover was from Europe. The objective now would be to improve the quality of earnings and reduce dependence on any one geographical area. Page 27

Business as usual in Madrid

As befits one of the citadels of Spain's rampant new capitalism, the Madrid Stock Exchange was open for business yesterday in spite of the fact that almost the entire country had been shut down by a 24-hour general strike. The market, in fact, reported an abnormally high turnout of traders, though business itself was light. The general index has shown little movement in the last three months and the most reliable explanation for the market's uninspiring performance in the last quarter of the year is that it is exhausted. Page 44

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Thyssen	187.6	+	7.3
Falls			
Bayer Verein	345	–	4
BMW	520	–	5.5
Commerzbank	229.5	–	3.8
Daimler-Benz	736	–	12.3
Feldmuehle	260.2	–	4

NEW YORK ($)

Rises			
Caesars World	29⅛	+	3⅞
Longview Fibre	75⅛	+	1⅜
Smithkline Beck	50¼	+	1¼
Syntex	43¾	+	1
Falls			
First Fidelity	27⅞	–	7⅝
GenCorp	17⅛	–	½

New York prices at 12.30.

PARIS (FFr)

Rises			
Bongrain	2990	+	88
Casino	178	+	4.8
Comptoirs Mod	810	+	30
Falls			
BP France	71.3	–	2.1
Lucheire	288.5	–	8.5
Soc. Generale	558	–	20

TOKYO (Yen)

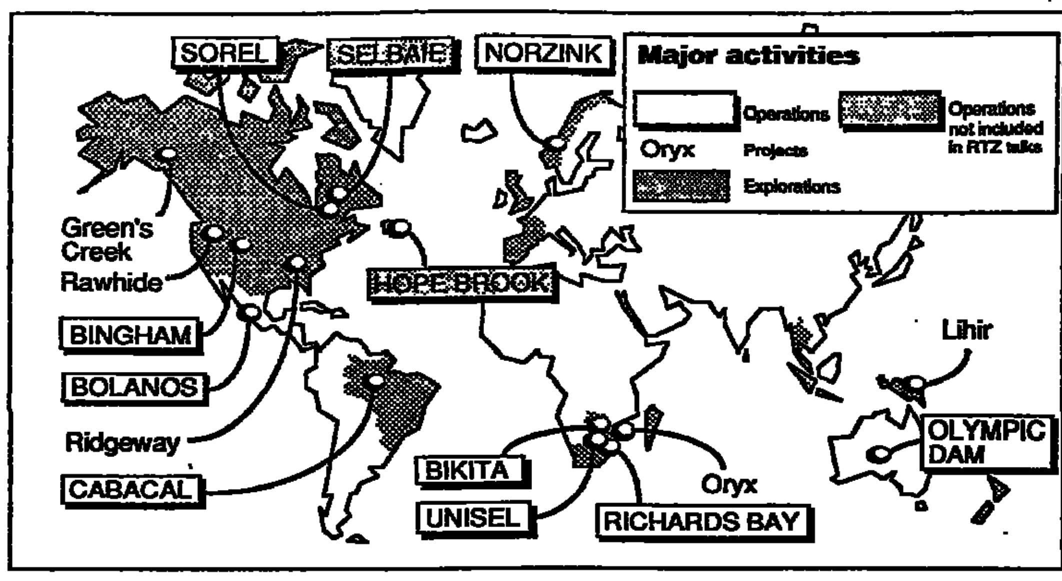
Rises			
Homan	1190	+	100
Noritake	1270	+	110
Tokan	806	+	100
Toshiba Eng.	1250	+	110
Falls			
Japan Battery	1080	–	70
Japan Cedit	1420	–	160

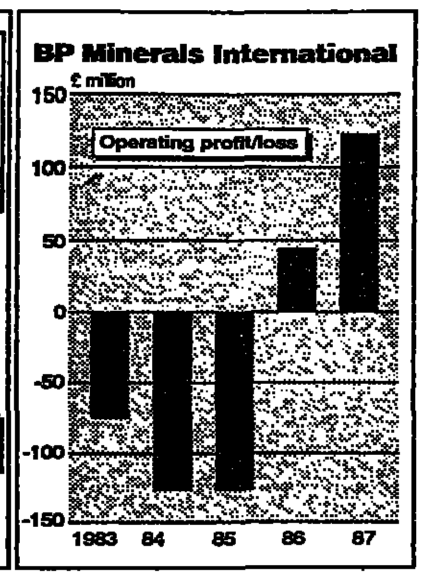
LONDON (Pence)

Rises			
Chrysalis	109	+	8
Enterprise Oil	516	+	27
Health Care	83	+	12
ICI	995	+	10
LASMO	463	+	15
Scholes Grp.	245	+	13
Shell Trans.	341	+	5
Sutcliffe Speak	125	+	9
Vaux Grp.	738	+	10
Falls			
Aitken Hume	43	–	6
Boase Massimi	182½	–	12½
Bulmer (H.P.)	142	–	10
Charter Cons.	465	–	24
Coats Viyella	133	–	9½
Dawson Int.	189	–	6
ERF (Hldgs.)	433	–	32
Granada	312	–	5
Int.City Hldgs	80	–	7
Johnson Matthey	338	–	16
Laird Grp.	207	–	8
Mountleigh	155½	–	9
Parkland A	155	–	7
Rainers	159	–	6
Yale & Valor	301	–	15

It's back to basics for BP and RTZ

Kenneth Gooding looks at prospects for a major shift in Britain's minerals industry





If it comes off, it is likely to go down in the record books as one of the great "back to basics" deals of the year.

Yesterday's news that British Petroleum is negotiating the possible sale of its minerals division to RTZ, the large British mining house, represents a major shift back to core businesses by both companies.

BP Minerals International had its origins in two disastrous acquisitions at the start of the decade by the oil company. Selection Trust, the London-based mining finance house which was taken over by BP in 1980 for £407m, and Kennecott Corporation of the US, one of the world's biggest copper producers which changed hands in 1981 for $1.8bn.

Although there was no official word from BP, the indications last night were that it almost certainly intends to use the proceeds from the sale to buy back some of the BP shares acquired by the Kuwait Investment Office last year in the company's disastrous share sale. The KIO has been ordered by the Government to reduce its 22 per cent shareholding to just under 10 per cent.

For RTZ, purchase of the BP assets would represent a dramatic shift in the balance of its business back to its core minerals business. Under Mr Derek Birkin, chief executive since 1985, the group has already undergone a major restructuring.

So far this year it has raised £910m from selling off peripheral and non-performing assets. It has withdrawn from the oil and gas industry and now stands on two strategic legs - mining and manufacturing, with earnings from the one supposedly balancing out dips in the other.

Analysts believe this cash chest, plus credit facilities, gives the group £2bn of readily accessible funds.

The analysts expect the price to be paid for BP Minerals will be between $3.5bn and $4.5bn. However, the bargaining will be hard. As one pointed out, RTZ has a reputation for not paying over the odds.

Why is BP selling now, and just what assets would RTZ be buying ?

Essentially BP is trying to take advantage of the current high price of metals – and most observers expect prices to stay high for at least another year – after turning round what in the early 1980s was a loss-making business.

BP's timing in buying its minerals operations was unfortunate because, having paid dearly for the businesses, it saw metals prices collapse in the first half of the 1980s and they did not recover until last year.

However, BP persevered and has been spending about $600m a year to lick the business into shape. There were some disposals but the metals recession also helped shrink the size of BP Minerals from a turnover of £788m in 1983 to £443m last year.

From 1983 to 1985 inclusive, BP Minerals sustained operating losses totalling £377m. There was a modest operating profit of £45m in 1986 and one of £125m last year.

Analysts believe the progress has continued. Mr Jack Jones, mining specialist at UBS Phillips and Drew, estimates BP Minerals could make £300m before tax and interest next year.

During the loss-making years BP Minerals kept a low profile and this has obscured the fact that it is a key player in several areas, including copper, gold and titanium dioxide.

Indeed, BP Minerals is the world leader in the supply of titanium dioxide feedstocks to the pigment industry, with 40 per cent of the market. The use of titanium dioxide has grown steadily to replace competitors such as clays and kaolins because it provides white finishes of superior quality and of less cost than obtainable elsewhere.

Consequently, BP's QIT-Fer et Titane company, based in Montreal, Canada, has been making annual operating profits of between $80m and $100m for the past three years, helping to offset losses elsewhere in the minerals division.

One possible source of embarrassment for RTZ is the fact that QIT gets some of its raw material from the Richards Bay mineral sands deposit in South Africa, in which it has a 42.5 per cent stake. Any increase in RTZ's involvement in South Africa – it would also take over one-third interests in two gold mines in that country – would be bound to upset some of its institutional shareholders. Another important element in BP Minerals is a 49 per cent interest in the Olympic Dam mine, discovered by its partner, Western Mining, in South Australia in 1979 and which came into production this year. Potentially one of the world's biggest underground mines, Olympic Dam in its early years is expected to produce an annual 45,000 tonnes of copper, 1,900 tonnes of uranium oxide and 20,000 troy ounces of gold.

In the US, BP Minerals owns outright the Bingham Canyon copper-gold mine which this year was brought back into production after a $400m modernisation scheme and which is now one of the lowest-cost copper producers in the world.

Costs at Bingham are helped considerably by the fact that the mine produces about 300,000 troy ounces of gold a year as a by-product to count towards the cost of recovering the copper.

The gold has been sold on at cost to a sister company within the minerals division, BP Gold, into which BP's other North American and Brazilian gold mines were injected. BP attempted to float 15 per cent of BP Gold on the New York stock market three times but always pulled the issue at the last moment when market conditions changed for the worse.

(Excluded from the talks with RTZ are two gold mines which are part of BP Canada, a quoted company in which the UK group has a 64 per cent interest.)

The potential jewel in the crown, and a mine which could catapult its owner into the first division of world gold producers, is Lihir Island in Papua New Guinea. BP has spent $60m on early work at Lihir and the indications were that it could produce between 400,000 ounces and 500,000 ounces of gold a year in the early 1990s. But extracting the gold, which is in the crater of an active volcano, would be very difficult.

Swiss drug groups dispose of units

By Peter Marsh in London

INTERNATIONAL PAPER, the world's biggest paper company, agreed yesterday to buy the Ilford photographic products division of Ciba-Geigy, the large Swiss chemicals and pharmaceuticals group.

In a separate move, F. Hoffmann-La Roche, another big Swiss chemicals company, said it had finalised terms for selling its troubled medical instruments division to a group of investors led by Baring Brothers, the UK merchant bank. This deal is subject to the approval of government authorities in France and West Germany where the Roche instruments division does much of its business.

None of the groups involved in yesterday's deals said they were willing to divulge the prices of the transactions, which involve businesses with combined annual sales of about SFr840m ($540m).

The moves were seen by analysts as a sign that both Swiss companies, which are among the world leaders in speciality chemicals and healthcare products, wish to concentrate on these fields.

"The message is that both Ciba-Geigy and Roche want to get rid of the parts of their companies which do not really fit," said Mr Claudio Werder, an analyst at Bank Vontobel, a Zurich-based bank.

New York-based International Paper sells a range of types of paper in areas such as packaging and stationery. The company, which expects sales this year of about $10bn, said it had bought Ilford to expand its activities in paper products related to graphics and photography.

International Paper moved into this area in December last year, paying $250m for Anitec Image Technology, a large US maker of such items.

Ilford, which employs 3,400 people and has its main production centres in the UK, Switzerland and France, expects to have sales this year of about SFr500m.

The division, which specialises in black and white films and paper products used by professional photographers, has had a number of problems over the past 10 years. It has failed to make much headway in consumer photographic films.

Roche's medical instruments division is part of Kontron, a Swiss electronics and instruments company which Roche bought in 1974.

Kontron had sales last year of SFr559m of which medical instruments – which include ultrasound imaging equipment and blood analysis systems – contributed SFr341m.

The instruments division has in recent years struggled to make a profit. It has suffered heavy competition from other, mainly US-based makers of medical systems such as Hewlett-Packard and Perkin-Elmer.

Kontron's electronics group is to remain part of Roche, at least for the time being. Roche said yesterday it was looking at ways of selling this part of the business.

The Kontron instruments division which is being sold has 1,400 employees, most of whom work in Italy, West Germany, France and Britain and the US.

Under the deal with Roche, it will be owned by Baring Capital Investments, a financial group in which Baring Brothers and Société Générale, the French bank, are among the investors.

Ciba-Geigy US purchase, Page 22

Laird to sell bus, taxi and rail division

By John Griffiths, in London

LAIRD, the diversified UK sealing systems, engineering and transport group, announced yesterday that it is to dispose of its Transport Systems Division, which groups together its bus, railway rolling stock and taxi manufacturing activities.

The operations employ a total of 1,700 people in the Birmingham area.

Last year they accounted for nearly 16 per cent of the group's £395m turnover but contributed only £1.33m – less than 4 per cent – to the group's £36.5m profit before tax and interest.

Within this total, however, its Birmingham-based bus-making company, Metro-Cammell Weymann, has been making losses.

Laird's decision to sell is understood to have been influenced by structural changes taking place in the railway rolling stock industry, which are expected to make it more difficult for smaller producers such as Laird's subsidiary, Metro-Cammell, to compete against world-scale groups.

Laird has appointed S.G. Warburg to handle the disposals, which are intended to be completed during the first half of next year. Laird said yesterday it would have to make substantial provisions for future trading losses and rationalisation in the bus and taxi-making operations following an internal report on them.

Accountants Deloitte Haskins & Sells are carrying out a full review of MCW which will be reflected in this year's accounts. Excluding the results of the Transport Systems Division, Laird's profits before tax for this year ending December 31 "will exceed those reported for 1987."

Details, Page 27

Manpower agents vote to oust UK manager

By James Buchan in New York

Mr Tony Berry, chairman of Britain's Blue Arrow employment services group, faces a full-scale rebellion in his large US business with the passing of a vote of no confidence in his management by angry local franchisees.

The revolt by independent franchisees at Manpower, the big Milwaukee-based temporary employment agency which Blue Arrow bought for $1.2bn in September 1987, presents a challenge to Mr Berry in the US just as he is struggling to win over restive stockholders at home. The £837m ($1530m) in shares Blue Arrow sold to pay for Manpower have halved in value.

The franchisees said yesterday they were seeking talks with Blue Arrow's leading institutional shareholders to try to dislodge the US company's British management.

"They want to come to a resolution of this issue," said Mr Donald Dardis, a Chicago publicist hired by the franchisees. "They don't want Manpower to get lost in the Blue Arrow corporate structure."

The franchisees, independent business people who pull in about 60 per cent of Manpower's $1.5bn in North American revenues, say they are furious at Mr Berry's break last week with Mr Mitchell Fromstein, Manpower's long-serving chief executive. Mr Fromstein quit on December 6 in opposition to efforts by Mr Berry to amalgamate Manpower's operations with those of Blue Arrow.

At a meeting in Chicago late on Tuesday, 109 of Manpower's 161 franchisees voted to try to oust Mr Berry and Mr William Markey, who took over as chairman and president to replace Mr Fromstein. "They don't necessarily want Fromstein back. They want somebody who has a background in this industry and that is not Mr Berry or Mr Markey," Mr Dardis said.

Neither Mr Berry, Mr Markey, nor Mr John Sharkey, named as Manpower's deputy chairman, could be reached for comment yesterday.

Mr John Larson, a Milwaukee stockbroker who is a leading expert on Manpower, said: "These franchisees are angry and disappointed at the end of a long-standing relationship with Mitch Fromstein."

Analysts say Mr Berry is under intense pressure to improve Blue Arrow's image with investors by ending the arms-length relationship with Manpower and taking the US company into the new field of permanent placement. Mr Dardis said yesterday that franchisees were not thinking of a "leveraged buy-out or proxy fight at this stage."

Coats profits set to fall by 40%

By Alice Rawsthorn in London

COATS VIYELLA, the biggest textile group in Europe, yesterday announced that its pre-tax profits may fall by as much as 40 per cent to £128m this year because of increasingly competitive conditions within the UK textile industry.

Coats' shares, which have performed poorly on the London stock market for the past year, fell by 9½p to 133p. The announcement also affected the rest of the UK textile sector. Courtaulds' shares fell by 3p to 242½p and Dawson International's by 6p to 189p.

Since last autumn the UK textile industry has suffered a sudden surge of imports reflecting the strength of sterling against the US dollar and related Far Eastern currencies. This import increase, combined with depressed demand in some areas – like knitwear, handknitting and children's wear – has taken a toll on the larger groups, such as Coats and Courtaulds. Coats' problems have been compounded by the weakness of its carpet companies, which are still in the throes of restructuring.

In September Coats announced a 6 per cent fall in pre-tax profits to £76m for the first half of 1988. Mr David Alliance, chief executive, said yesterday trading conditions had worsened since September due to the continued strength of sterling and the impact of increased UK interest rates on the outlook for consumer spending.

Moreover, he said, the performance of the group's South American thread companies – which fared well in the first half – had been hampered by hyperinflation.

As a result Coats's profits could be cut by 40 per cent this year, including losses of £15m on discontinued activities. The board proposes to hold the dividend at 6p.

Coats has been forced to cut costs. Its workforce has already been reduced by 4,000, or by 5 per cent, this year. The job losses have been concentrated in the UK and in knitwear and handknitting. The restructuring should cost about £35m by the end of the year.

Mr Alliance said that, unless conditions deteriorate dramatically, there will be no more major closures. There will, however, be further restructuring in children's wear and carpets. Coats is concentrating investment – more than £80m this year – on its strongest sectors such as home textiles and on increasing the flexibility of its clothing companies to expand into Europe.

Lex, Page 20

Euromobiliare control for Midland

By Alan Friedman in Milan

MIDLAND BANK of the UK is paying L96bn ($74.5m) to take effective control of Euromobiliare, the Milan merchant bank.

The deal, under which Midland boosts its equity stake in Euromobiliare from 3.14 per cent to 45 per cent, represents the most significant move to date by a British clearing bank into Italian finance.

In London, Mr George Loudon, chief executive of Midland Montagu, the bank's investment banking arm, said he considered Italy to be "a key market, especially with the advent of 1992." He described the move as an important component of Midland's expansion across Europe.

The acquisition of around 42 per cent of Euromobiliare shares, the bulk of which was sold by the Italian entrepreneurs, Mr Carlo De Benedetti, Mr Raul Gardini and Mr Silvio Berlusconi, comes after a year of negotiations.

According to Mr Sencar Toker, a managing director of Midland Montagu, the Euromobiliare deal is Midland's biggest acquisition on the Continent since 1981, when it bought majority control of Trinkhaus Burkhardt in West Germany.

Midland's control of Euromobiliare will be cemented by a shareholders' pact with three senior executives of the Milan bank who together control 6 per cent of the total equity. This pact will make for a shareholders' consortium with 51 per cent of Euromobiliare.

Midland is paying around L8,000 per share for the Euromobiliare block of equity, which represents a 24.6 per cent premium over yesterday's Euromobiliare share price of L6,420 on the Milan bourse.

Mr Rodolfo Bogni, a Midland Montagu managing director, said in Milan that he considered the purchase price to be "in line with transactions of this type." He said he hoped to see deals generated by the Midland-Euromobiliare partnership and cited in particular as areas of co-operation sectors such as mergers and acquisitions, general corporate finance, capital markets business, institutional asset management, private asset management and venture capital.

Midland has no plans to install an executive at Euromobiliare in Milan, but Mr Bogni was yesterday named deputy chairman. Also appointed to the Euromobiliare board were Mr Christopher Sheridan, chief executive of Samuel Montagu, Mr Toker of Midland Montagu and Mr Leon Bressler, executive chairman of Midland Bank (France). Mr Alberto Milla, Euromobiliare chairman, and Mr Guido Roberto Vitale, managing director, continue in their posts.

Mr De Benedetti, who remains a deputy chairman of Euromobiliare, sold Midland 8 per cent of the 13 per cent stake held by his CIR group. Mr Gardini's Ferruzzi group and Mr Berlusconi's Fininvest each lowered their stakes from 15 per cent to 5 per cent, while Dumenil Leblé, the French investment bank controlled by Mr De Benedetti, sold 1.3 per cent of its 6.3 per cent holding in Euromobiliare. The remaining shares came from RAS, the Italian insurer, CBI, a Geneva-based financial concern, and a group of Florence investors.

Montedison board approves Enichem deal

THE BOARD of Montedison, the chemicals company controlled by Mr Raul Gardini's Ferruzzi group, yesterday gave its formal approval to the merging of a substantial part of its activities with Enichem, the state chemicals company, writes Alan Friedman.

The last hurdle thus appears to have been cleared ahead of the formation on January 1 of Enimont, the new joint venture chemicals concern.

Mr Gardini, during a press conference in Milan yesterday, said he expected to sign the deal with Mr Franco Reviglio, chairman of the ENI group, by today. The Ferruzzi chairman also said he would pose no conditions to the setting up of Enimont, which he said would take shape during a "transition period" that would last for the first six months of 1989.

Mr Gardini said he would go ahead with the Enimont project even if the Italian parliament were not to approve legislation designed to help Ferruzzi-Montedison to defer the payment of L1,125bn ($873.4m) of capital gains taxes associated with the venture. The law was approved by the Italian cabinet last month.

Mr Gardini also said that a minority stake in Enimont might eventually be sold to investors by means of a public offer on the stock market.

The plan at present is for Montedison and Enichem to each own roughly 40 per cent of Enimont, with the remaining 20 per cent being placed privately.

Daimler to pay unchanged dividend

By Haig Simonian

DAIMLER-BENZ, the West German motor group, will pay an unchanged dividend of DM12 a share for 1988 on earnings which will be "satisfactory" despite the low value of the dollar, according to Mr Edzard Reuter, the group's chief executive.

The news came as Daimler's shares fell DM12 to DM735 amid speculation that the company may make a rights issue of around DM1bn ($571m) early in 1989. Daimler did not deny yesterday that such an issue was planned, both to prepare for the purchase of a possible 30 per cent stake in Messerschmitt-Boelkow-Blohm (MBB) and to improve its equity ratio. Analysts suggest Daimler could issue 2m shares at a discounted price of around DM500 apiece.

Group turnover is set to rise to DM73bn this year from DM67.5bn in 1987. Higher sales of motor cars and lorries accounted for about half the rise in group turnover this year. Demand for heavy lorries especially was now exceeding supply, the company said.

Deliveries of goods vehicles in Western Europe are set to rise by 12 per cent this year to about 140,000 units, while production of commercial vehicles at the group's domestic plants will increase by 8 per cent to about 156,000 units. Worldwide output should reach about 261,000 units, the highest level since 1981, although earnings are still not entirely satisfactory, according to Mr Reuter.

Daimler planned to invest just under DM30bn from 1989-1993, with three-quarters going to the passenger and goods vehicles sides. Next year, some DM5bn will be spent on fixed investments, DM1bn more than this year.

David Goodhart in Bonn writes: The final outcome of the prolonged negotiations over Daimler-Benz's takeover of MBB will not now be decided until early next year. Talks on Tuesday night ended inconclusively and the remaining obstacles to agreement will be discussed today in the talks between the coalition party leaders.

First Fidelity put heavily into red by loan losses

By Roderick Oram in New York

FIRST FIDELITY Bancorp, a fast-growing US regional bank holding company, will report a fourth-quarter loss of between $145m and $190m because of bad loans at its Philadelphia and London branches.

Mr Harold Pote, its president and chief executive, and Mr Bernard Morgan, a vice chairman, have resigned as a result of a charge which could wipe out the profits made in the first nine months of the year.

The news stunned Wall Street, which had considered the Newark, New Jersey, based company with assets of $30bn a successful example of aggressively expansionist regional holding companies that are thriving on new laws allowing inter-state banking. Its shares plunged $7¾ to $27¼.

The severe setback for First Fidelity also heightened concern that some regional bank holding companies might have expanded too rapidly, straining their management and operational systems and leading to a higher incidence of bad loans.

The company said the losses, for which it will make a $250m-300m addition this quarter to its bad loan reserves, stemmed from real estate loans at its Philadelphia bank and commercial loans to international borrowers by its London branch.

Both operations were part of Fidelcor, the Philadelphia-based bank holding company First Fidelity acquired in February for $1.3bn. Mr Pote and Mr Morgan were formerly Fidelcor's chief executive and chief operating officer respectively. After the merger, Mr Morgan remained president of the Philadelphia bank.

First Fidelity said it fired Mr Jeanne-Pierre Galy, head of its London-based international department. Mr Robert Ferguson, 63, the holding company's chairman, has taken over Mr Pote's duties. He was president and chief executive of First Fidelity before the merger.

The company said it had been investigating low-quality loans at its London branch for some months. The bad loans, confined entirely to the UK and Philadelphia operations, were made to a small number of borrowers before the February merger, it added.

"Our business and that of our constituent institutions is sound," Mr Ferguson said. "We have one of the finest banking franchises in the country and within a short period of time our operating results will reflect that."

It plans to keep paying its 50 cents a share quarterly dividend. For the nine months ended September 30, First Fidelity reported net profits of $210m or $3.62 a share.

Deutsche Bank forms life unit

By Haig Simonian in Düsseldorf

DEUTSCHE BANK, West Germany's biggest bank, yesterday confirmed months of speculation by announcing the establishment of its own life assurance business, which it hopes will be fully operational by next autumn.

Deutsche Lebensversicherung, which will be capitalised at DM30m, will offer a new savings-linked life assurance product, details of which have still to be approved by the German insurance supervisory office.

The bank confirmed, however, that it would not be moving into other areas of the insurance business.

The new life unit will be a wholly-owned subsidiary. However, Mr Alfred Herrhausen, the bank's speaker (chief executive), left open the possibility of further partners coming on board, although the bank would remain the majority shareholder.

"We are open for partners," he said, confirming that the bank had already received approaches from a string of insurance companies in both Germany and abroad. The new operation will use the the bank's existing branches and the outlets developed for Deutsche Bauspar, its building finance subsidiary set up in 1987.

Deutsche Bauspar is also developing an external sales force, which combined with the bank's traditional outlets, means the new life operation should reach break even "appreciably sooner" than would normally be expected, according to Mr Herrhausen.

Mr Georg Krupp, the managing board member responsible for the new life business, said the bank recognised it might lose funds under management from the insurance sector as a result of its new plans. "We see this danger, we have it always," he said.

"It's obvious that we expect a reaction," said Mr Herrhausen, who confirmed he was resigning from the supervisory board of Allianz Leben, the country's largest life insurer.

The bank's group figures, released for the first time at the 10 months' stage, revealed partial operating profits, which exclude gains from own-account trading, of DM2.38bn ($1.36bn). Interest income amounted to DM5.28bn while fee earnings were DM1.89bn.

Group total operating profits rose by 24.2 per cent over the figure for 10/12ths of 1987, although the bank provided no exact figure nor a precise year-on-year comparison.

Partial operating profits at parent company level rose from DM1.23bn to DM1.57bn in the first 10 months of 1988. Interest income climbed to DM3.9bn from DM3.6bn while fee income rose to DM1.54bn from DM1.28bn.

Earnings for the year as a whole should be "favourable," according to Mr Herrhausen, who indicated the dividend should be "satisfactory."

The bank had no immediate plans for a rights issue, he said, pending a further improvement in its share price. "I can't name a date that we're planning a capital raising, but I underline that Deutsche Bank is growing," said Mr Herrhausen.

Ciba-Geigy in US scales move

By John Wicks in Zurich

METTLER Instruments, which forms part of the electronic equipment division of Ciba-Geigy, the Swiss chemical group, has reached an agreement to take over all shares of Ohio-based Toledo Scale, a leading manufacturer of industrial and retail scales and other weighing systems.

Toledo is expected to have 1988 sales of some $250m. It has six production facilities in the US and one in West Germany, as well as a number of foreign sales offices, and a total payroll of about 2,800.

Mettler is itself a leading producer of precision weighing and analytical instruments, employing 2,900 worldwide.

MAN on course for profits rise

By Andrew Fisher in Munich

MAN, West Germany's largest mechanical engineering group, is on track for a rise in profits in its current financial year to June after a strong performance in the first five months.

Order inflow soared by 23 per cent in the July-October period to DM 5.2bn ($3bn) and Mr Klaus Götte, the chairman, said yesterday that the November figure had also been high at around DM 1.5bn.

MAN achieved group net profits of DM202m for the 1987-88 year, an increased of 24 per cent, and lifted the dividend payment from DM5.50 to DM6.50 a share.

Turnover was virtually unchanged at DM15bn, reflecting the lower volume of large industrial plant business completed last year.

The sharp rise in profits stemmed mainly from MAN's progress in commercial vehicles, printing machinery, and international trading in metals.

MAN has undergone drastic organisational changes to improve productivity, restore profitability, and streamline its product range.

Mr Götte said the truck and printing equipment divisions had made a breakthrough last year, with combined pre-tax profits of nearly DM200m on sales of DM6.2bn. Five years ago, they lost more than DM250m on turnover of DM3.5bn.

This year, the two sectors should produce taxable profits of at least DM250m.

New products and more efficient production and distribution have helped the truck side, while the MAN Roland printing equipment subsidiary has benefited from big orders such as the industry's record DM 880m contract from Mr Rupert Murdoch, the Australian-born media baron.

Despite these advances, Mr Götte said, MAN's 1.3 per cent after-tax rate of return on turnover was too low. Improvements would come only gradually. For this year Mr Götte expected a return of nearly 1.6 per cent, which would put earnings at around DM 240m on the group's planned turnover of DM 15.5bn.

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Net loss by Campeau stores duo

By David Owen in Toronto

ALLIED STORES and Federated Department Stores, the two large US retailing chains purchased by Campeau of Canada in the past two years, have both reported net losses for the third quarter ended October 29.

On a pre-tax operating basis, however, both were profitable, as cost cutting offset the currently flat sales environment.

Allied Stores returned a net loss of US$18.3m (£10m) against a loss of $55.9m a year earlier. Sales fell to $707m from $859.7m reflecting disposals.

Earnings for the nine months were $13.8m on sales of $2.01bn, against a loss of $194.2m on sales of $2.82bn.

Interest expense declined almost 40 per cent over this period from its elevated year-earlier level to $199.9m.

Federated meanwhile reported a net loss of $35.2m in its latest quarter, against a profit of $55.9m. Sales fell by more than half to $1.1bn from $2.6bn. Since May, asset sales totalling $4.1bn have been closed or announced.

Earnings at Federated's five retained department store divisions rose 6 per cent before interest and taxes. Interest expense soared more than five-fold, however, to $127.9m from just $23.4m a year earlier.

Tax ruse backfires for Spanish insurers

Spain's Government is pressing 33 insurers to reveal investor names says **Peter Bruce**

The Spanish Finance Ministry has engineered what could be a bruising siege of the country's powerful banking and insurance community by insisting some 33 insurers hand over the names of investors who paid up to Pta1,500bn ($13.2bn) into one-off life assurance premiums in 1986 and 1987 to escape high withholding taxes on bank deposits.

Because of the loophole, big Spanish banks like Banco de Bilbao, Banco de Credito Español (Banesto) and Banco Hispano Americano, which also own some of the country's largest insurers, encouraged customers to switch assets to insurers under their control. More important perhaps, by doing so the banks themselves were also able to ease the burden of stringent new deposit reserve ratios placed upon them by the Bank of Spain at the beginning of 1986.

The Finance Ministry has been chasing the money in vain ever since and recently ordered the insurers to hand over details of premiums paid on the so-called *prima unica* single premium policies.

The rise in premiums completely distorted the rankings in the insurance industry. Euroseguros, controlled by Banco de Bilbao, appeared to become Spain's biggest insurer overnight, with a fivefold increase in premiums last year to Pta161bn. The Mapfre group slumped to a poor second with just Pta65bn, just ahead of Union y Fenix Español, Banesto's insurance affiliate, which collected Pta64bn.

What the bare statistics were hiding, however, was that *primas unica* had made up 86 per cent of Euroseguros' apparently astonishing performance as Banco de Bilbao shovelled money off its balance sheet into its subsidiary. The policies had made up 35 per cent of Union y Fenix's premiums but just 6 per cent at Mapfre, which had largely ignored the ruse and continued with its core business.

Last week the insurers closed ranks and told the Government they would not hand over any names, arguing that the ministry's demand would mean violating client confidentiality and that single premium policies were common elsewhere in Europe. They also offered to lobby on behalf of the five big savings banks permitted to do insurance business, which had also made use of the loophole and sold single premium policies.

Unespa, the insurers' industry association, has offered to negotiate with the Government but the ministry, particularly Mr Jose Borrell, its energetic Secretary for Fiscal Affairs, is in a fighting mood and insisted at a meeting with Unespa this month that they hand over all the details be is demanding. The ministry said as much again after last week's Unespa decision.

Mr Borrell is rapidly emerging as the Government's main weapon in the fight against tax avoidance, which is rife in Spain. Although increased corporate profits have helped boost tax receipts this year Mr Borrell has also streamlined the cumbersome tax collection system. He has already won support for his struggle with the insurers from the Constitutional Court and the issue now looks like moving to the Supreme Court where it could languish for years.

If he succeeds in getting his hands on the names and amounts invested in *primas unica*, say analysts, banking and insurance credibility could be badly dented. The banks or insurers may, in fact, be forced to indemnify the customers they talked into taking out the policies, and punitive taxes could be astronomic.

Although Spanish banks and their insurers are muscular, Mr Borrell will be able to put them under immense pressure to comply. Already the insurers are somewhat divided because of the number of foreign companies among them which are much more dependant on government goodwill than the locals.

Generali of Italy, for example, is Spain's ninth largest insurer with Pta26bn in premium income last year, nearly half of which, according to Unespa figures, was from *primas unica*.

But the *cajas de ahorro*, the savings banks, may prove to be the insurers' Achilles heel. Spanish savings banks now account for some 45 per cent of total deposits in the country and seriously threaten the banks. The Catalan *cajas*, primarily, have also dipped heavily into the life assurance business, much to the annoyance of the rest of the insurance industry.

The country's biggest deposit holder, the Barcelona-based Caixa de Pensiones, has led the way and owns an insurance affiliate which took in Pta57bn in premiums in 1987, which would rank it among Spain's biggest.

La Caixa, like all Spanish savings banks, currently operates under strict geographical restrictions that prevent it opening savings banks throughout the country. Its insurance business is done through GrupCaixa, an affiliated national insurance, mortgage and financial holding company.

Insurers are already offering clients new instruments to escape taxation, or at least too much of it. But it is becoming more and more difficult in Spain to operate beyond the reach of the taxman. For its part, the Socialist Government has run into enough trouble from its grass roots for being too lenient with the banks and big business and it would appear to have little to lose by following the elusive Pta1,500bn to the end.

SPANISH INSURANCE PREMIUMS 1987

Insurer	Total Pta bn	Primas unica Pta bn
Euroseguros	161.0	152.2
Mapfre	65.0	4.4
Union y Fenix	63.9	22.1
La Estrella	62.0	46.2

Source: Unespa

Winsor profits slide 30% in first six months

By John Elliott in Hong Kong

PROFITS OF Winsor Industrial, one of Hong Kong's largest textile and clothing manufacturers, fell by 30 per cent in the six months to September. This was caused both by tight profit margins on exports to the US and elsewhere, and by a sharp fall in profits from investment activity after last year's stock market crash.

Although turnover was little changed at HK$1.36bn (US$174.4m) against HK$1.32bn, net profits were down to HK$162.5m from HK$233.4m.

Mr T.K. Ann, chairman, said the results had to be compared with "a very exceptional performance" achieved before the crash. The business outlook for the second half "continues to be unfavourable."

The textile and clothing business had not seen any substantial improvement during the half-year. Sales volume was maintained only through reductions in profit margins, and some orders were taken at losses to maintain quota use.

In the US, "tight inventory control and the absence of fashion trends have forced buyers to hold up commitments and to reduce order quantities," said Mr Ann.

Operating profits from investment activity fell to HK$4.1m from HK$47.6m.

Italian to take the helm at Schering

By Leslie Colitt in Berlin

SCHERING, the West Berlin-based pharmaceuticals and chemicals company, has named Dr Giuseppe Vita, 53, management board chairman, with effect from next June 15.

Dr Vita, who is Italian, is one of the rare foreigners to be chosen to head a large West German company. He will succeed Dr Horst Witzel on his retirement.

As a radiologist, Dr Vita headed Schering's highly successful Italian subsidiary until he was named to the board in 1987. He specialised in radio opaque substances, which now make up a third of Schering's pharmaceuticals turnover.

Dr Vita will also be responsible on the board for the pharmaceuticals division (accounting for 50 per cent of company sales) following the retirement of management board member Heinz Hannse at the end of this year.

Professor Klaus Pohle, 51, who is in charge of finance and industrial chemicals, will become deputy chairman.

Leadership change at Alfa-Laval

By Robert Taylor in Stockholm

MR HARRY Faulkner will next May leave the presidency of Alfa-Laval, the leading Swedish dairy equipment and process engineering group.

He is to be succeeded by the 48-year old Mr Lars Kylberg, the current president of the Wallenberg dominated conglomerate Incentive, who has also worked for Saab-Scania and Asea.

The Stockholm bourse expressed its apparent approval at the announcement of the departure next May with a boost of 6.4 per cent in the company's shares.

Alfa-Laval has experienced a chequered history during the nine years that Mr Faulkner has been its head. It went through a particularly difficult period in 1984 when the European Community imposed milk quotas that hit its business prospects in the EC area.

However, the company has enjoyed a successful turnaround over the past two years – thanks to a programme of acquisitions, cost cutting and investment in research and development. Its financial results for the first eight months revealed a 27 per cent increase in profits after financial items to SKr525m, and orders received over the same period totalled SKr9.3bn.

The arrival of Mr Kylberg as Alfa-Laval president suggests that the powerful Wallenberg family will strengthen their control on the company, in which they have 32 per cent of its voting shares.

* * *

THE TOP executive post of Secretary General at the International Chamber of Commerce (ICC), the world business organisation, will be filled by the Hon. J. Hugh Faulkner, a 55-year old Canadian. He has been selected to succeed Mr Hans Koenig, of West Germany, who is retiring.

Mr Faulkner has held senior posts in the Alcan group in the past eight years. For 14 years before that, he was a member of the Canadian House of Commons and latterly a government minister. He is a member of the Privy Council.

One of the main priorities from 1989 onwards of the Paris-based ICC, which has over 7,000 members in more than 100 countries, will be to continue to influence the current trade negotiations taking place under GATT auspices in Geneva. Another priority is the business contribution to environmental protection.

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CASIO Computer, a leading Japanese manufacturer of digital watches and calculators, named senior managing director Mr Kazuo Kashio as president to replace Mr Tadao Kashio, his elder brother.

The elder Kashio, who is 71, is retiring after 28 years as company president, but he will stay on as an adviser.

Mr Kazuo Kashio, 59, joined Casio in 1951 on graduating at Nihon University, and in 1976 became managing director.

* * *

SIEMENS AG, the West German electricals concern, has set up a new data systems group in the UK to sell its wide range of mainframe and departmental computers.

Mr Andrew Ferrier, 43, has been made head of this unit, which is part of Siemens Ltd, the UK offshoot of Siemens AG. He joined Siemens last month after 20 years experience in the computer industry.

● Mr Goetz Steinhardt, 45, has become finance and administration director of Siemens Ltd, not of Siemens AG, the parent, implied in last week's appointments column.

* * *

AT Fiat USA, American subsidiary of the Fiat Group, Italy's largest private company, Mr Furio M. Colombo has been appointed chairman, a new post, and Mr Vittorio C. Vellano promoted to president.

Mr Colombo had been president of Fiat USA since 1983.

INTERNATIONAL CAPITAL MARKETS

Bank auction plan cheers dealers

By Katharine Campbell in London and Janet Bush in New York

THE UK government bond market put a positive initial interpretation on yesterday's announcement by the Bank of England that it would hold an experimental reverse auction in January, when it would undertake to buy back a maximum of £500m of gilt-edged bonds from the short end of the yield curve.

The two outstanding issues in question are £2.4bn worth of 10 per cent Exchequer and £2bn of 11 per cent Exchequer, both due 1989. The auction would be January 13, for settlement three days later.

Corporate tax payments usually peak around this time, draining cash from the market. The Bank has been using repurchase facilities to inject the additional liquidity required; the reverse auction is effectively a repo without the buyback.

There is not much precedent for central banking techniques of buying back government stock, a necessity forced on the Old Lady by the UK budget surplus. But market makers initially welcomed the experiment as a cleaner method of operating.

Previously, the dealers had simply rung the Bank with offers of stock, and no one quite understood on what basis the issues were bought or refused. Now the bidding will be more in the open, although the Bank reserves the right to buy nothing if the market's pricing is too aggressive.

Clearly the Bank of England sees a structural surplus continuing for a while. Participants interpreted this positively in terms of continuing artificially high support for prices.

The implications for their job security in a shrinking market were another matter.

Previously, the market had assumed the Bank would buy in stock primarily at the long end, but the move yesterday suggested purchases might be more evenly spread. Immediately afterwards, the short stocks through to about six-year maturities rose about ¼ point on the news, whereas the long end was up ⅛ point or so, quickly falling back some ⅛.

Thus the yield curve, which is steeply negative, flattened a little. After much consideration, the verdict was that the Bank's move was simply a technical adjustment.

Yesterday was generally a bouncy day. Sterling weakness depressed morning prices, as the currency dipped below DM3.18 by lunchtime.

Gilts were then buffeted by a choppy US market, first cheered by predictable October trade numbers but quickly upset by higher capacity utilisation data which portends continuing strength in the US economy.

A fall in UK industrial output was one of the few positive influences on the market, but not enough to prevent the benchmark 2003-2007 bond closing a full point down.

EUROPEAN talk was again of higher interest rates, as both the Dutch and Belgian central banks raised rates.

German government bonds rose 15 basis points before yesterday's repurchase agreement, and up to a further 5 or 10 points afterwards, on the news that the Bundesbank had set rates between 5 and 5.5 per cent, in contrast with levels between 4.70 and 4.95 on the expiring facility.

Although the amount of the repo was unexpected, the liquidity was necessary to meet cash needs for tax demands. There was little reaction by German bonds to US trade number. They finished the day roughly 15 basis points ahead.

MR DAVID Lange, New Zealand's Prime Minister who let slip in another context that he took no notice of markets, chose, probably unintentionally, the day the New Zealand Futures Exchange was closed to announce the sacking of Mr Roger Douglas, the Finance Minister.

Markets fell sharply on the news that Mr Douglas's long-running dispute with Mr Lange had ended in dismissal, but sadly the automated, screen-based NZFE was shut because of a power workers' strike. Traders were thus unable to adjust their government bond book via futures, as the 5-year benchmark fell about their ears, and yields rose to 14.70 per cent from 14.14 before the news. The NZ dollar dropped 3 cents.

THERE were no surprises in yesterday's batch of US economic data which were in line with expectations, leaving Treasury bonds drifting lower in dull trading.

By midsession, short-dated maturities were quoted around ⅛ point lower, medium-date issues were up to ¼ point higher as they clawed back weakness earlier this week and long-dated issues fell by as much as ½ point.

The yield curve remained inverted, with the yield on the 8.875 per cent 1990 issue at 9.137 per cent and the yield on the Treasury's benchmark long bond rising to 8.999 per cent.

Although yesterday's figures were almost exactly as forecasters had predicted, the dollar slid on foreign exchanges, putting some pressure on bonds.

At midsession, the US currency was quoted at Y122.75 compared with an early high of Y123.45 and at DM1.7385 from DM1.7505 earlier.

Yesterday's batch of figures confirmed that progress towards reducing the trade deficit is now very sluggish and that manufacturing production continues to be robust. It is still unclear, however, whether there is enough strength in the economy (and therefore a substantial enough threat of inflation) to push the discount rate higher.

The Federal Open Market Committee ended its two-day meeting yesterday and the bond market will be focused on the Federal Reserve's money market operations over the next few weeks.

Of more immediate concern will be the dollar's reaction to interest rate moves overseas amid expectations that the Bundesbank may raise its Lombard rate.

Fed funds opened at a soft 8⅝ per cent.

THE French futures exchange, the Matif, was closed for over an hour with a bomb scare just after the US trade figures were announced. Happily, French bonds reacted little to US trade data and French inflation figures, which were unchanged on a year-on-year basis.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	8/92	107-07	-6/32	11.09	10.85	10.32
		8.750	8/97	90-23	-19/32	10.39	10.13	9.78
		9.000	10/08	96-08	-27/32	9.41	9.21	9.07
US TREASURY*		8.875	11/98	98-01	-4/32	9.18	9.02	8.92
		9.000	11/18	99-27	-12/32	9.01	8.97	9.03
JAPAN	No 105	5.000	12/97	103.2091	+0.132	4.50	4.58	4.59
	No 2	5.700	3/07	108.5089	+0.320	4.73	4.76	4.87
GERMANY		6.750	8/98	101.0750	-0.050	6.62	6.46	6.40
FRANCE	BTAN	8.000	10/93	97.4518	-0.075	8.65	8.50	8.58
	OAT	8.500	9/98	104.4050	-0.170	8.77	8.66	8.65
CANADA*		10.250	12/98	100.1250	-0.625	10.23	9.97	10.17
NETHERLANDS		6.7500	10/98	101.3250	+0.025	6.63	6.55	6.45
AUSTRALIA		12.500	1/98	100.0418	+0.239	12.48	12.39	11.97

London closing, *denotes New York morning session
Month ago yields on US Treasury apply to the 9.250 of '98 and the 9.125 of 2018
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Further resignations at Salomon

By Our Financial Staff

MR WILLIAM Voute, vice chairman of the Salomon Brothers unit at Salomon Inc, the US investment bank and commodities trader, and Mr William Wight, a managing director in charge of corporate bond trading, have resigned, Salomon said yesterday.

Traders at other Wall Street firms said the departures reflected, in part, a de-emphasis in bonds at Salomon. They said it had become increasingly difficult to make significant profits in bonds.

Earlier this year, several other executives at Salomon, including Mr Craig Coats, head of government bonds, resigned.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Wed Dec 14 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Tue Dec 13 Index No.	Mon Dec 12 Index No.	Fri Dec 9 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (208)	755.49	—	12.40	4.71	9.88	25.27	755.45	749.95	749.53	689.56
2	Building Materials (28)	988.21	+0.2	14.03	5.01	8.77	33.27	986.51	982.59	988.82	879.21
3	Contracting, Construction (39)	1402.86	-0.5	14.01	4.34	9.30	46.70	1410.10	1402.52	1399.06	1308.91
4	Electricals (10)	2247.35	+0.3	9.64	5.82	12.51	77.61	2240.13	2227.15	2231.00	1949.00
5	Electronics (30)	1731.84	+0.6	10.83	3.77	11.95	46.05	1721.86	1701.43	1696.94	1481.60
6	Mechanical Engineering (54)	396.41	-0.2	11.90	4.67	10.21	13.75	397.06	392.07	390.06	351.63
8	Metals and Metal Forming (8)	447.86	-0.7	16.91	6.47	6.74	14.31	450.83	445.45	444.25	423.78
9	Motors (16)	256.72	-0.1	13.22	5.27	8.74	9.80	257.01	254.09	256.44	245.67
10	Other Industrial Materials (23)	1280.37	-0.3	10.62	4.07	11.13	45.45	1284.15	1284.79	1291.02	1194.34
21	CONSUMER GROUP (180)	989.31	-0.4	10.51	4.20	11.93	29.69	993.64	993.09	997.06	997.86
22	Brewers and Distillers (21)	1098.87	-0.4	11.58	4.06	10.79	30.86	1103.71	1101.96	1117.78	952.16
25	Food Manufacturing (21)	889.19	-0.6	10.30	4.32	12.19	27.16	894.50	893.15	895.65	814.22
26	Food Retailing (16)	1730.92	-0.9	10.44	4.05	12.61	51.41	1747.16	1749.10	1732.31	2000.77
27	Health and Household (13)	1757.60	+0.3	7.65	2.87	14.98	40.69	1752.11	1758.19	1767.73	1716.57
29	Leisure (31)	1313.00	-0.7	9.37	4.00	13.62	37.72	1322.04	1319.98	1333.40	1079.57
31	Packaging & Paper (17)	501.40	+0.1	11.12	4.49	11.18	16.19	501.00	499.92	503.08	483.35
32	Publishing & Printing (19)	3091.72	-0.4	9.90	4.96	12.64	106.59	3103.80	3104.53	3118.74	3217.14
34	Stores (34)	662.36	-0.3	12.05	5.19	10.23	23.22	664.02	660.79	658.79	824.04
35	Textiles (16)	432.61	-3.3	16.09	6.49	7.45	19.12	447.29	449.72	451.04	508.25
40	OTHER GROUPS (92)	875.86	-0.1	11.99	4.92	10.18	28.79	876.66	872.91	877.07	814.37
41	Agencies (19)	995.52	-0.3	9.04	2.84	13.09	21.23	998.69	994.91	996.58	978.00
42	Chemicals (22)	1000.11	+0.5	12.75	5.27	9.42	41.73	994.65	994.57	996.90	1022.11
43	Conglomerates (12)	1212.34	-0.3	12.19	5.91	9.47	54.06	1216.20	1209.49	1242.25	1089.04
45	Shipping and Transport (12)	1820.11	-0.2	12.38	5.15	10.62	62.40	1823.34	1811.09	1816.29	1698.64
47	Telephone Networks (2)	998.87	—	11.86	4.74	10.97	21.88	998.31	988.74	986.60	847.06
48	Miscellaneous (25)	1156.12	-0.7	12.46	4.75	9.12	41.15	1163.77	1150.90	1150.42	1120.29
49	INDUSTRIAL GROUP (488)	911.91	-0.2	11.44	4.54	10.88	28.96	913.91	910.77	913.47	876.17
51	Oil & Gas (12)	1774.60	+1.8	10.43	6.30	12.27	76.90	1743.69	1728.50	1717.13	1630.98
59	500 SHARE INDEX (500)	984.76	+0.1	11.29	4.40	10.99	33.01	984.11	979.99	981.56	948.14
61	FINANCIAL GROUP (124)	661.00	-0.3	—	5.39	—	26.51	662.73	662.53	665.12	608.74
62	Banks (8)	653.97	+0.3	21.40	6.63	6.19	32.10	652.20	654.46	658.06	602.96
65	Insurance (Life) (8)	906.86	-0.2	—	5.05	—	39.81	908.52	913.71	913.47	898.68
66	Insurance (Composite) (7)	510.95	-0.1	—	6.12	—	24.04	511.45	508.08	505.71	504.57
67	Insurance (Brokers) (7)	876.17	+0.5	9.99	7.30	12.30	46.07	871.76	875.32	874.61	809.58
68	Merchant Banks (11)	310.38	+0.2	—	4.83	—	10.93	309.82	310.87	313.39	312.29
69	Property (52)	1194.74	-1.1	5.95	2.88	21.49	25.65	1208.05	1200.01	1208.70	936.40
70	Other Financial (31)	340.50	-0.7	10.34	5.78	12.08	15.12	342.84	344.22	347.35	357.51
71	Investment Trusts (76)	899.63	-0.1	—	3.34	—	20.26	900.58	902.92	905.64	777.81
81	Mining Finance (2)	535.00	+0.6	11.41	3.90	9.77	15.67	532.04	548.65	553.31	435.97
91	Overseas Traders (8)	1249.43	-0.3	9.39	5.06	12.34	44.98	1253.44	1260.71	1247.15	925.11
99	ALL-SHARE INDEX (710)	904.47	—	—	4.83	—	30.85	904.36	901.93	903.72	851.61

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 13	Dec 12	Dec 9	Dec 8	Dec 7	Year ago
FT-SE 100 SHARE INDEX ♦	1756.1	+3.5	1756.4	1741.7	1752.6	1747.9	1758.3	1757.9	1771.7	1689.8

FIXED INTEREST

	PRICE INDICES	Wed Dec 14	Day's change %	Tue Dec 13	xd adj. today	xd adj. 1988 to date
	British Government					
1	5 years	117.46	-0.07	117.74	—	11.18
2	5-15 years	133.20	-0.57	133.96	—	12.26
3	Over 15 years	144.35	-0.64	145.28	—	13.86
4	Irredeemables	167.60	-0.74	168.85	—	13.62
5	All stocks	130.87	-0.42	131.43	—	12.20
	Index-Linked					
6	5 years	138.02	-0.18	138.26	—	1.81
7	Over 5 years	126.36	-0.46	126.94	—	3.26
8	All stocks	126.45	-0.43	127.00	—	3.13
9	Debentures & Loans	116.81	-0.04	116.85	—	11.62
10	Preference	86.19	+0.30	85.94	—	6.41

	AVERAGE GROSS REDEMPTION YIELDS		Wed Dec 14	Tue Dec 13	Year ago (approx.)
	British Government				
1	Low	5 years	10.54	10.45	8.98
2	Coupons	15 years	9.70	9.61	9.68
3		25 years	9.22	9.15	9.49
4	Medium	5 years	10.94	10.83	9.66
5	Coupons	15 years	9.91	9.81	9.88
6		25 years	9.42	9.33	9.69
7	High	5 years	11.06	10.98	9.75
8	Coupons	15 years	10.04	9.94	10.02
9		25 years	9.44	9.38	9.75
10	Irredeemables†		9.06	8.99	9.41
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.69	3.60	3.08
12	Inflation rate 5%	Over 5 yrs.	3.77	3.74	3.99
13	Inflation rate 10%	5yrs.	2.56	2.46	3.45
14	Inflation rate 10%	Over 5 yrs.	3.61	3.58	4.06
15	Debs &	5 years	11.42	11.41	10.89
16	Loans	15 years	11.14	11.13	10.91
17		25 years	10.86	10.86	10.92
18	Preference†		10.39	10.42	10.60

♦Opening index 1754.1; 10 am 1749.8; 11 am 1749.5; Noon 1743.4; 1 pm 1742.6; 2 pm 1742.7; 3 pm 1743.2; 4 pm 1747.9; 4.05 pm 1748.0
(a) 5.00pm (b) 1.26pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 34p.
CONSTITUENT CHANGES: Aurora (6) and LandLeisure (29) have been deleted and replaced by Leisure Investments (29) and Life Sciences (27).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	7	97	7
Corporations, Dominion and Foreign Bonds	1	16	34
Industrials	279	475	827
Financial and Properties	98	193	378
Oils	37	15	53
Plantations	1	0	12
Mines	21	53	115
Others	90	55	103
Totals	534	904	1,529

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
58	F.P.	-	65	58	♦Apollo Metals 10p	64		R2.0	2.9	4.2	11.0
§20	F.P.	16/12	28½	21	♦Apollo Watch Prods. 5p	28½	+½	b0.45	3.0	2.1	19.2
-	F.P.	-	74	55	BTR Warrants	59		-	-	-	-
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Amount paid up by dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. ... Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. §Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♦ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Dec 5
- Last Dealings Dec 16
- Last Declarations Mar 9
- For settlement Mar 20

For rate indications see end of London Share Service

Calls in Sears, Pentland, Camblum Venture, BSR, ERA, Ratners, Addison, Clogau, Grand Met, PML, Readicut, Charter Cons, Holmes Protect, Ultramar, N. Kaig, Parkfield, C. Church, Dewey Warren, Mountleigh. Put in Hallcal Bar.

LONDON TRADED OPTIONS

[illegible]

December 14 Total Contracts 31,248 Calls 16,754 Puts 14,754
FT-SE Index Calls 2302 Puts 6186
*Underlying security price.

INTERNATIONAL CAPITAL MARKETS

Soft dollars find the going tough

Norma Cohen reports on the fierce debate over commission rebates

Declining stock market turnover in the UK and the US has opened up a fierce debate about the granting of so-called soft dollar concessions by stock brokers to fund managers. Some securities firms are pressing to have the practice outlawed.

In the UK, where stock exchange business is down about 30 per cent in value this year from pre-crash levels – 45 per cent on a volume basis – the distribution of commission payments has become an increasingly bitter issue.

A group of full-service stockbroking firms has asked the Securities and Investments Board to outlaw soft dollars, a system of rebating some commission to a money manager.

The SIB, for its part, will say only that it is reviewing all its rules, with an eye towards simplification. Any revisions to soft dollar rules are more likely to step up disclosure provisions for investors – criticised by some as insufficient to educate the unsophisticated investor – rather than outlaw the practice altogether.

Among regulators, both in the UK and the US, soft dollar commissions have been a bone of contention for some time.

In soft dollaring, an investor *turns his funds over to a professional manager*, adding a small fee on top to cover the manager's overheads and profit. The fund manager, in *turn, agrees to give a stockbroker*, say, £100,000 of commission business in a single year, usually at a pre-agreed rate. Commissions are paid to stockbrokers out of the investor's funds, not out of the management fee.

Meanwhile, the stockbroker provides the money manager *with a number of services* used to run the business – typically computer software or research reports – the cost of which is equal to a percentage of the *commission business*.

Thus, money managers, themselves facing increased competition from international firms in the London market, can keep their management fees competitive and still cover their overheads profitably.

Mr Trevor Pullen, securities manager at Prudential, the UK's largest money manager, said: "Every time I've observed small firms, it becomes obvious to me that they would not be viable were it not for soft dollars."

The Prudential itself does no soft dollar business.

On the face of it, the arguments against soft dollar commissions are about investor protection. After all, while investors pay money managers a separate fee to cover overheads, a soft dollar commission system allows them to cover some overheads out of a client's investment money.

Pre-Big Bang, when commissions were set by the stock exchanges, companies saw soft dollar arrangements as a means of obtaining more for their money and more for their clients. If everyone charged the same commission, then you might as well agree to put half your business with one stockbroker in exchange for research materials that helped earn a better return on clients' money.

Since Big Bang, which abolished fixed commissions, that argument has weakened.

"Where commissions are negotiable and there is a lot of net dealing going on, it seems to me you absolutely cannot justify soft dollar business," said Mr Pullen.

In the current climate in the UK, there is more to the argument than investor protection.

The fierce competition in the UK stockbroking business is forcing some full-service brokers – even those which charge clients no commission for stock transactions – to provide some "soft" services as well, just to maintain the stream of business.

Morgan Grenfell, for instance, which withdrew from *equities market making* after losing £18m ($32.7m) this year in that business, had been reluctantly dealing with some of its best clients on a soft dollar basis.

The arguments about soft dollars are not limited to the UK. In the US market, where soft dollar arrangements are even more widespread, an increasing number of money managers are having to re-examine their soft dollar agreements.

Many American money managers entered into soft dollar agreements for 1988 based on their much-higher 1987 volume. Now that the year is drawing to a close, managers realise in many cases they have not transacted enough business through their soft dollar brokers and may have to refund the cost of *some of the soft services* provided.

Opponents of soft dollaring argue the dilemma of the US fund managers illustrates one *of the key pitfalls of the system*. After all, it could encourage managers to "churn" client accounts simply to generate enough commission business *to meet the soft dollar contracts*.

Defenders of soft dollar commissions say that keeping small fund managers in business is the least of the arguments in its favour.

A group of stockbroking firms have sprung up offering their services exclusively on a soft dollar basis. Mr Clive Sinclair-Poulton, managing director of Hoenig Institutional Services, argues that even if hard dollar stockbrokers charge no commission, fund managers get better value for clients dealing through a firm like his.

Hoenig argues that, because of the volume of business transacted, the touch – the spread between bid and offered prices – is much narrower than would be available to ordinary agency brokers, and more than compensates for any commission costs.

Mr Sinclair-Poulton says Hoenig's average bargain is about £300,000, while the average stock exchange transaction is about £30,000.

He adds that what is really irking critics of soft dollar *commissions is how much* business has been lost to firms that provide it exclusively – a fact which some critics readily concede.

While Hoenig has been in business in the UK for less than three years, the group of soft dollar firms now accounts for between 7 and 10 per cent of all stock exchange transactions. And that percentage has been achieved in a dramatically shrinking market.

So far, regulators in both the UK and the US have taken the view that there is nothing wrong with soft dollar arrangements as long as investors are aware of them and that they are used only to buy those items which are exclusively for the client's benefit.

In 1975, the US Securities and Exchange Commission drafted its first rules on soft dollars, but limited the services that could be softed to those that were not available commercially, such as research reports and certain software.

In 1986, however, that definition was greatly expanded to include anything that was exclusively for the benefit of the client. This meant that sophisticated analytical services and screen information services such as Datastream and Reuters could be paid for with soft dollar commission funds.

The expanded definition of what can be provided has proved troublesome, UK regulatory officials concede.

Soft dollar commissions may be used improperly to subsidise overheads in a manner that does the client no good at all. And there is the risk that funds can be used for a form of corporate bribery or improper and excessive entertainment.

"It's girls in cakes, that sort of thing," said an official at one of the UK's self-regulatory organisations, describing the sort of entertainment that has proved worrisome.

But more usually, the improprieties alluded to involve gifts of vacations or travel expenses cleverly disguised as business trips or fact-finding tours.

Royal Bank of Scotland in $400m notes issue

By Stephen Fidler

ROYAL BANK of Scotland is issuing $400m in perpetual floating-rate notes to supplement its capital, with a structure which its creators say is designed to ensure liquidity for investors.

Investors will be allowed to put the notes to a special-purpose company after 15 years. This vehicle, which can warehouse the notes, is separate from Royal Bank and is designed to be off balance sheet, even if the proposed tough UK accounting rules on that subject are brought into effect.

From the bank's point of view, it has issued perpetual cumulative loan stock, but investors effectively hold a 15-year investment. The conventional market in perpetual FRNs has never recovered from a crisis nearly two years ago and it is now, in effect, impossible for banks to issue this type of paper.

The notes would count as primary capital under existing Bank of England guidelines, but following implementation in July 1989 of the Basle convergence agreement they will be classified as Tier 2 capital.

However, because they are irredeemable, the notes are not classified as subordinated term debt, which cannot exceed 50 per cent of high-powered Tier 1 capital. However, their cost to Royal Bank is said to be similar to this.

The structure has been developed jointly by Swiss Bank Corporation Investment banking and Charterhouse, Royal Bank's merchant banking subsidiary. Because they say the product is proprietary they are unwilling at this stage to enlarge on the details.

SBCI said it pre-placed the paper mainly outside the UK with non-bank investors, of which some were in Japan.

The two banks are, however, keen to differentiate the structure from those which have been brought to market for French banks, for example. These have included the purchase of zero coupon bonds by an affiliate of the issuing bank to repay the perpetuals after a given period. This structure was regarded as unacceptable in the UK.

The Royal Bank notes are "defeased" by the special-purpose vehicle – which means assets are built up to set off against the liabilities – but the banks will not say quite how.

Treuarbeit to link with UK firm

By Richard Waters

TREUARBEIT, the second largest accountancy firm in West Germany, is planning to defect from Price Waterhouse to link with Coopers & Lybrand, the UK's third largest firm.

The move, which follows five years of close co-operation between Treuarbeit and Price Waterhouse, is the latest and most significant sign of a shake-up in Continental accounting firms in the run-up to Europe's single market.

The so-called Big Eight accountancy firms are currently jostling for representation around the Continent, where the markets for accountancy services are less well developed than in the English-speaking world. This has left the eight fighting for representation from a small group of large local firms in each country, with the danger that some will be left without a significant presence.

Treuarbeit, which has about 2,500 staff, is expected to retain operational independence within Coopers, although discussions on the details are still continuing.

Sanwa Bank gains listing on London SE

By David Lascelles

SANWA BANK, Japan's fifth largest, has obtained a listing on the London Stock Exchange. The bank's listing was sponsored by Kleinwort Benson.

Mr Hirokazu Tada, senior managing director, said yesterday that the move was designed to bring Sanwa closer to the London investment market and to widen the bank's access to capital funds.

He said capital-raising would be one way by which Sanwa would raise its balance sheet ratios in order to comply with the new international capital regulations, being phased in over the next three years.

Sanwa would also be reducing its annual rate of asset growth from 15 to 10 per cent.

Fears of tighter monetary policy curtail activity

By Dominique Jackson

A GROWING conviction that European central banks and the US Federal Reserve are to tighten monetary policy had a marked effect on sentiment in the Eurobond market yesterday, further subduing levels of activity which is already well down ahead of the holiday period and the year end.

However, on the new issue side, a further Eurosterling deal emerged with yet another short-dated Canadian dollar issue, both of which appeared to meet a good reception.

Rises in key interest rates in both the Netherlands and Belgium fuelled speculation that the Bundesbank would move to raise the Lombard rate later today, from its present level of 5 per cent.

Nerves over tightening credit even overshadowed yesterday's preoccupation with the release of key US data, a factor which sharply limited activity in the early part of the trading session. However, the US trade deficit for November was broadly in line with forecasts and failed to have much impact on prices.

Initial gains in dollar denominated bonds following release of the data were later eroded when capacity utilisation and industrial production statistics prompted fears that US interest rates would also have to rise in the short term.

A scenario of rising interest rates never augurs well for world bond markets and dealers noted a distinct downturn in sentiment yesterday.

Business has been thinning lately as institutional investors start to square their books ahead of the year end. They are now unlikely to be buying much paper, particularly if they suspect it may well be available at lower levels in the near future.

Kleinwort Benson was the lead manager for Associated British Ports' £75m issue due 2015. The deal was priced to yield 170 basis points over the 9 per cent Treasury stock due 2008. ABP Holdings said the

INTERNATIONAL BONDS

net proceeds of the issue would be used for general corporate purposes, including expansion schemes at its ports and the development of property activities.

Dealers said the Bank of England's announcement that it would hold a reverse auction of short-dated gilt-edged stock next month had refocused investor attention on the tightness of supply in the UK government bond market.

This technical shortage is expected to prompt some resurgence of activity in both the Eurosterling and bulldog markets. Dealers said most of the recent crop of Eurosterling bonds had seen a fairly warm reception as they had been deemed to be priced sensibly.

J.P. Morgan was the lead manager on a C$100m deal for Interfinance Credit National, a unit of France's Crédit National which has greatly enhanced its profile in the market with a string of fairly successful deals this year.

Demand in the sector continues to be concentrated at these maturities. Recent softness in the Canadian government bond market facilitated the 11½ per cent coupon on the issue which is expected to make the issue more attractive to the traditional Continent-based retail accounts which are reportedly still buying this type of paper.

No new dollar straight bonds emerged as swap rates have not been favourable for some time now.

The Belgian Finance Ministry announced it had decided not to proceed with an issue in the sector due to adverse market conditions.

The deal for Belgium, one of the most popular sovereign borrowers in the market, had been anticipated for some time as the proceeds were set to be used for the refinancing of an outstanding *$400m floating-rate note*.

The borrower has a call option due on the seasoned bond later this month and another next July, if December's call is not exercised.

In West Germany, bond market turnover was low with prices showing a marginally easier bias. The recent deal for the Union Bank of Finland saw some slight improvement from Tuesday's levels and was quoted bid at a discount of 2.55.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
Interfinance Cr.National◆	100	11½	101.40	1991	1½/⅝	J.P. Morgan Secs.
STERLING						
Assoc.British Ports◆	75	10⅞	97.879	2015	2½/1½	Kleinwort Benson
US DOLLARS						
Flash Ltd.-Series D(a)‡◆	30	18bp	100.10	1993	10/7bp	Sanwa Int.

‡Floating rate notes. ◆Final terms. a) 18bp over 6-month Libor. Secured by $38.33m guaranteed ex-warrant bonds.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 14

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	†93	93½	−⅛	−⅜	10.06
A/S Eksportfinans 7¼ 92	150	93	93½	−⅛	−¼	9.86
B.F.C.E. 7 92	150	92⅜	92⅞	0	0	9.69
Brit. Tel. Fin. 9⅜ 98	250	97⅞	98⅜	−⅛	−½	9.67
Canada 9 96	1000	97⅝	98⅛	−½	−⅞	9.41
Canadian Pac 10⅜ 93	100	†101¾	102¼	0	+¼	10.07
C.C.C.E 9¼ 95	300	97⅞	98⅜	0	−¼	9.65
C.N.C.A 9⅜ 93	150	98¾	99¼	+⅛	−⅜	6.62
Credit Lyonnais 9 91	200	†98½	99	−⅛	−⅞	9.62
Credit National 8¼ 93	200	94⅝	95⅛	0	−⅝	9.72
Credit National 7⅜ 92	100	93⅜	93⅞	−⅛	−⅜	9.66
Credit National 7¼ 91	150	†93⅜	93⅞	−¼	−½	9.80
Dai-Ichi Kan 9⅝ 92	150	99¼	99¾	−¼	−⅜	9.76
Denmark 7⅛ 92	500	92⅜	92¾	−⅛	−¼	9.93
E.E.C. 7 91	100	93¼	93⅞	−⅛	−⅛	9.56
E.E.C. 7¼ 93	250	91⅞	92¼	−⅛	−⅝	9.63
E.E.C. 8 90	350	97	97½	−⅛	−¼	9.86
E.I.B. 7⅝ 93	100	91⅞	92⅜	−¼	−¼	9.68
E.I.B. 9⅜ 97	150	98⅜	98⅞	−⅛	+⅛	9.60
Elec.De France 9 98	200	95¾	96¼	−⅛	+½	9.66
Finland 7⅞ 97	200	89⅝	90	−¼	−1⅛	9.78
Finland 7½ 93	200	91⅞	92¼	−¼	−½	9.66
Finn.Exp.Cd. 8½ 92	200	96¼	96¾	−¼	−⅜	9.78
Ford Motor Credit 8 91	250	†96	96½	−⅛	−⅝	9.88
Gen.Elec.Cap.Corp. 9 93	500	96⅞	97⅜	0	−⅛	9.75
Gen Elec Credit 10¼ 00	200	†100	100½	0	0	10.19
Gen.Mtrs.Corp. 9⅛ 92	200	98⅛	98⅝	−⅛	−⅝	9.65
Halifax BS 9½ 93	200	†98¼	98¾	−⅛	−1	9.90
IBM Credit Corp. 8⅞ 91	250	†98⅛	98⅝	0	−⅜	9.53
Italy 9 90	1000	—	—	—	—	—
Lib. Mutual Cap. 9¼ 93	150	†98¾	99¼	−¼	−¼	9.38
L.T.C.B of Japan 8 91	100	95½	96	0	−½	9.91
L.T.C.B.of Japan 8 97	200	89⅜	89⅞	−¼	−1	9.92
Metropolis Tokyo 9½ 93	200	99½	100	−⅛	−¼	9.57
Morgan Guaranty Tst. 7 90	150	†96⅜	96⅞	0	−⅜	9.96
Nippon Tel.&Tel. 9⅝ 98	250	97⅞	98⅜	−¼	−1⅛	9.67
Norway 8¾ 93	500	96¾	97¼	−⅛	−⅝	9.63
Portugal 8¼ 91	300	†97	97½	−⅛	0	9.62
Prudential Crp. 8¾ 94	125	96⅞	97⅜	−¼	−½	9.41
Qantas Airways 10⅜ 95	140	102⅜	102⅞	−¼	−1⅛	9.79
Rep. of Italy 9½ 95	1000	98¾	99¼	−⅜	−⅜	9.70
Saskatchewan 10¼ 92	100	102⅜	102¾	−¼	−1	9.77
State Bk S Aust 9¼ 93	100	97¾	98⅜	−¼	−½	9.84
Sumitomo Bank 9⅝ 92	150	99⅛	99⅝	−¼	−⅝	9.81
Swed Exp Cred 7¼ 91	100	†93⅞	93⅞	−¼	−½	9.80
Sweden 7 91	250	93½	94	−¼	−½	9.62
Sweden 7 92	250	†92⅞	93⅜	−⅛	−⅜	9.60
Sweden 8¾ 96	200	95¼	95¾	−¼	−1⅛	9.62
Sweden 8½ 92	200	†97¾	98¼	0	−¼	9.14
Victorian Rep 11⅝ 92	150	104¾	105¼	−⅛	−½	9.77
World Bank 7 92	300	†92⅞	93⅜	−⅜	−¼	9.64
World Bank 9 97	300	96⅞	97⅜	−¼	+⅜	9.49
World Bank 9¼ 98	300	97½	98	−¼	−⅜	9.61
Yasuda Trust Fin 8½ 93	100	†94⅞	95¼	−⅛	−1⅛	9.89

Average price change... On day −0¼ on week −0⅝

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	101⅛	102	+¼	−½	5.65
Avis Fin.SVS 5⅞ 92	100	101	101½	0	0	5.43
Bank of Tokyo 5¾ 93	100	101½	102	0	+⅜	5.27
Central BK. Turkey 7 92	200	103⅞	104⅜	0	0	5.75
Commerzbank o/s. 5⅛ 93	300	100⅛	100⅝	−⅛	−⅝	5.27
Degussa Int. 6⅛ 97	200	100⅝	101⅛	−⅜	−1¼	5.97
E.I.B 5½ 98	150	95¼	95¾	0	−⅜	6.14
E.I.B 6 97	300	98⅞	99⅜	+⅛	−¼	6.12
E.I.B. 6⅛ 96	300	100¼	100⅞	+⅛	−⅜	6.01
E.I.B. 6⅛ 97	400	99⅞	100½	+⅛	−¼	6.10
E.I.B. 6⅞ 95	300	104½	105⅛	+⅛	−¼	6.01
Euro.Coal&Steel 5⅞ 97	175	98⅛	98⅞	−⅛	−⅜	6.11
Eurofima 6¼ 96	100	101	101⅝	0	−½	6.03
Elec De France 5¾ 97	300	98¼	99	−⅛	−⅜	5.95
Forsmark Krtg. 5⅛ 93	200	98¼	98⅞	+⅛	0	5.49
I.A.D.B. 6 97	200	99⅛	99⅞	+⅛	+⅛	6.07
Japan Dev. Bk. 5⅜ 95	300	98⅜	99⅛	0	0	5.61
Japan Finance 5¾ 97	100	97⅝	98	−⅛	−⅛	6.10
Ireland 6½ 97	300	100¾	101¼	−⅛	−¼	6.33
Malaysia 6¼ 94	150	99⅝	100⅜	0	−½	6.24
Nat. West BK. PLC 6 98	300	97	97¼	−⅛	−⅜	6.37
N.H.L. Finance 6¼ 95	200	†99¼	99¾	+⅛	+⅜	6.34
Nippon Telg.&Tel. 6 95	400	101¾	102½	+⅛	+⅛	5.95
Oesters. Kontbk. 5 93	300	98⅛	99	+⅛	−⅛	5.37
Portugal 5⅞ 92	150	101	101⅝	−⅛	−¼	5.35
Portugal 6⅜ 95	150	102⅝	103⅜	0	0	6.05
Privatbanken 5¼ 93	150	97⅜	98⅜	−⅛	−⅞	5.79
Royal Insurance 5½ 92	300	100⅝	101⅛	0	−⅝	5.19
Soc Cent Nuclear 7¼ 95	150	105⅛	105⅞	+⅜	+1¼	6.19
Turkey 6½ 95	500	97¾	98½	+⅛	+⅜	6.86
Westlb. Finance 5 93	200	†99	99¼	0	0	5.23
World BK. 6¼ 97	600	100⅜	101	0	−½	6.10

Average price change... On day +0 on week −0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†101	101¼	−⅛	+¼	4.82
Asfinag 5 03	100	†100½	101½	+½	0	4.90
B.F.C.E. 4½ 98	200	†98½	98¾	0	−¼	4.68
B.M.W.Fin.Neth. 5 13	150	†96	96½	0	−⅜	5.27
Britannia B/S. 4¼ 94	100	†97	97¾	+⅜	0	4.80
CIR. Int. W/W 3 93	125	†97¼	97½	−½	−¼	3.63
Credit Lyonnais 4¾ 00	100	†97½	98	0	0	5.01
E.I.B 4⅝ 98	150	†99½	99¾	+⅛	+⅛	4.67
Fletcher Chall. 4⅞ 98	150	†97¼	97¾	+⅛	−¼	5.22
Kobe City 4⅝ 98	150	†97¾	98¼	−⅛	−½	4.89
Leeds Perm. B/S. 4⅛ 93	200	†97	97½	−¼	−½	4.84
Malaysia 5¼ 98	100	†97½	98	−1¼	−¼	5.55
Maxwell Comm.Crp. 5 95	150	†100½	101	+⅛	−¼	4.86
Nat.Bk. Hungary 5½ 94	75	†99	99¼	0	0	5.67
Nationwide Ang.B/S. 4 93	200	†96¾	97	0	0	4.78
Nippon Telg.&Tel.4¼ 95	200	†98½	98¾	0	+¼	4.49
Oesters.Kibk. 5 03	75	†100¼	100¾	+⅜	+⅜	4.95
Prov. New Foundland 5 03	150	†100	100¼	0	0	4.99
Thailand 4⅝ 95	200	†95¾	96¼	−½	0	5.36
World Bank 5 03	150	†100¾	101	+⅛	−½	4.91

Average price change... On day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅜ 92	55	102⅛	102⅝	+⅛	0	4.68
Belgium 4⅞ 94	45	98½	98¾	0	−⅛	4.91
Canada 4⅛ 92	80	99	99¼	0	−⅛	4.64
Elec. De France 5⅛ 94	20	101	101½	0	−¼	4.85
Ireland 5⅛ 93	30	100⅛	100⅝	0	−¼	5.02
Norway 5⅛ 95	50	101⅛	101⅜	0	−¼	4.88
Rep. of Italy 5¾ 92	150	103¼	103½	+⅛	−⅜	4.58
Sweden 4⅝ 95	50	99⅜	99⅝	0	−⅛	4.75
World Bank 5½ 92	50	103	103¼	0	−⅛	4.57

Average price change... On day +0 on week −0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat.BS.10¼ 93 £	50	96¾	97⅛	−¼	−⅝	11.17
Alg. Bk. Ned. 5½ 92 FL	150	98½	99⅛	0	−⅜	5.93
Alg. Bk. Ned. 5¾ 93 FL	200	98½	99⅛	0	−⅛	6.08
Amro Bank 6¼ 92 FL	150	101¼	101⅝	0	−½	5.81
Aust.Ind.Dev. 12⅞ 93A$	100	95¾	96¼	+¼	−¼	14.06
Barc. Bk. 10¼ 97 £	250	93⅞	94¼	−⅛	−⅝	11.35
Barclays Aus.13½ 91 A$	100	99⅛	99⅝	+¼	−¼	13.73
Blue Circle 10¾ 13	150	†95¾	96¼	−¼	−1¼	11.23
BP Capital 9¾ 93 £	100	93¾	94⅛	−¼	−1	11.55
British Airways 10 98 £	100	91	91½	−⅛	−1	11.58
Buhrmann-Tet. 6⅛ 93 FL	100	100¼	100¾	0	−⅛	6.23
Comm. Bk.Aust. 12⅛ 93A$	100	96⅛	96⅝	+⅛	−⅜	13.53
Coop.Ctr.Rabo.6¼ 93 FL	100	100⅛	100½	0	−⅛	6.17
Coop.Ctr.Rabo.6 92 FL	200	100⅛	100½	0	−⅛	5.91
Denmark 7¾ 92 ECU	100	†102¾	103¼	0	0	6.64
Dixons 11 95 £	90	†94¼	94¾	+½	−1¼	11.98
Deut.Bk.Aust.12¾ 95 A$	70	99½	100¼	0	0	12.77
Eastman Kodak 13 90 A$	100	96⅝	97⅛	+⅛	0	15.09
E.I.B. 7 96 LFr	100	*†98¼	99¼	0	0	7.23
Elec.France 10¼ 95 C$	125	†99⅜	99⅞	−⅛	+⅛	10.30
Euratom 7⅛ 97 ECU	145	95	95½	0	−⅝	8.17
Fed.Bus.Dv.Bk.9¾ 92 C$	75	†96¾	97¼	−⅛	−⅛	10.79
Ford Cr.Can.10¾ 93 C$	100	†99⅞	100⅜	−⅛	+¼	10.69
Gillette Can. 9⅝ 93 £	70	91¼	91⅞	−½	−1	12.06
G.M.A.C. 9¾ 93 C$	150	†96⅜	96⅞	−⅛	+⅛	10.72
G.M.A.C Aus.Fin.14 90 A$	50	99¾	100⅜	0	−¼	13.83
Halifax BS 10⅜ 97 £	100	93½	94⅛	−⅜	−1⅛	11.57
Imp Chem Inds 10 03 £	100	†93⅜	93⅞	+¼	−⅝	10.88
Inv.Industry Int.10 93 £	60	94⅛	94⅝	−⅜	−1	11.69
Lloyds Bank 10¼ 98 £	150	92⅜	92⅞	−½	−¼	11.57
Montreal Tst.10¾ 93 C$	100	†99⅛	99⅝	−⅛	+⅜	10.89
Nat. West. Bk.13¼ 92 A$	50	†99⅛	99⅝	+⅛	−¼	13.32
Nationwide BS 10⅛ 93 £	75	94⅛	94⅝	−½	−1¼	11.83
Ned.Midd.Bank 6 92 FL	150	100⅛	100⅝	0	−⅛	5.86
New Zealand 9½ 93 £	100	92¾	93⅛	−¼	−1	11.59
New Zealand 7¾ 93 ECU	200	100⅛	100⅝	−⅛	−½	7.63
Northern Rock 11¼ 00	40	†92¾	93¼	−1⅛	−1⅜	12.53
Oesters.Ktbk.13⅝ 94 A$	75	100⅜	101	−¼	−¼	13.41
Philips Gleoil. 6 93 FL	300	99½	99⅞	−¼	−⅜	6.08
Prudential Fin.9⅜ 07 £	150	†86¾	87¼	−1	−2	11.04
Royal Bk.Scot.10⅜ 98 £	125	94⅛	94½	−½	−1	11.70
Saskatchewan 9⅞ 91 C$	150	†97⅞	98⅜	−⅛	−⅛	10.68
Saskatchewan 10¼ 93	200	98⅜	98⅞	0	−⅛	10.65
S.D.R. 7¾ 95 ECU	90	†98⅞	99⅜	−¼	−½	7.92
World Bank 5¼ 92 FL	100	99½	100	0	+⅛	5.82
World Bank 13⅜ 92 A$	100	†98¼	98¾	+⅛	−1¼	13.85
Zentrspk. 13¼ 93 A$	75	98⅛	98⅝	+⅛	−⅜	13.69

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.68	99.73	21/01	10.99
Belgium 91 US	0	100.12	100.23	21/02	9
Britannia 5 93 £	0⅛	99.91	99.96	10/01	12.12
Chase Manhattan Crp.91 US	0¼	99.50	99.67	22/02	8.94
Citicorp 98 US	†0¼	97.50	97.75	30/11	8.94
Credit Foncier 98 US	.063	99.61	99.71	20/10	5¼
EEC 3 92 DM	†0	100.87	100.97	22/02	5.63
Halifax BS 94 £	.1	99.87	99.92	8/02	12.29
Invt. In Industry 94 £	0	99.95	100.06	24/02	11.87
Leeds Perm. B/S. 94 £	0⅛	100.01	100.06	13/01	10.44
Midland Bank 01 £	.1	96.25	97.12	11/02	11.41
Milk Mkt.Brd. 5 93 £	0⅛	99.97	100.02	30/12	12.06
New Zealand 5 97 £	.07	100.09	100.19	20/02	12.16
New Zealand 5 01 US	0	99.79	99.89	4/02	8.62
State Bk. New. 98 US	.188	100.27	100.37	13/02	8.87
Woolwich Equit.BS. 93 £	0⅛	99.90	99.95	13/01	12.12
Woolwich 5 95 £	0⅛	99.77	99.82	21/02	12.37

Average price change... On day 0.00 on week -0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	102	103	+⅛	19.91
Amer. Brands 7¼ 02 US	9/87	56.7	106⅛	107⅛	−⅞	9.42
Ashikaga Bank 2½ 02 US	4/87	967.	148¾	149¾	−⅛	6.68
Atics 5 92 DM	12/83	472.7	217½	218⅞	0	6.18
CBS. Inc. 5 02 US	4/87	200.	91¼	92¼	−¼	9.30
Eng.China Clay 6½ 03 £	9/88	4.8	98½	99½	−⅛	8.00
Fujitsu 3 99 US	5/84	1106.	256	257	+5⅛	1.10
Land Secs. 6¾ 02 £	6/87	6.72	91	92	−1	11.39
MCA Inc 5½ 02 US	9/87	69.62	81¼	82¼	−¼	23.07
Minolta Camera 2¼ 94DM	2/86	1004.	97¼	98⅝	−¼	20.00
Mitsubishi Bk.1¾ 02 US	9/87	3157.	136¼	137⅞	+⅛	4.78
Mitsui Trust 2⅜ 01 US	10/86	1903.	139⅛	140⅝	−¼	4.37
Next Plc 5½ 03 £	11/87	4.3	96¼	97½	−⅛	220.85
Nichi Nipp Bk.2⅞ 03 US	4/88	804.	120¼	121½	−⅞	14.13
Omron Tateisi 2¾ 02 US	4/87	1310.	222⅛	223⅞	+5¾	1.89
Primerica 5¼ 02 US	†4/87	66.75	64	65	−⅛	55.15
Ranks Hovis 4⅛ 03 £	†1/88	3.5	107¼	108¼	−¼	8.37
Redland 7¼ 02 £	†1/87	5.4	86½	87½	−⅞	20.77
Saatchi&Stch 6¾ 03 £	†10/89	4.41	92⅜	93¼	−⅛	30.55
Texas Inst. 2⅞ 02 US	9/87	82.87	72¼	73¼	−⅞	58.89
W.R. Grace 6½ 02 US	9/87	42.12	81⅛	82⅛	0	33.94

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK COMPANY NEWS

Acquisitions boost Polly Peck but margins fall

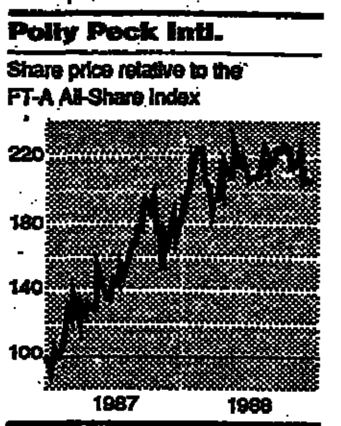
By Nikki Tait

POLLY PECK International, agricultural, electronics and textiles group, yesterday announced a rise in pre-tax profits from £86.23m to £107.3m over the 53 week period to September 3.

The advance comes on turnover increased from £380.85m to £705.42m – partially reflecting a number of acquisitions made during the year. The company said that these accounted for £250m out of the sale increase of £324.57m. However, it declined to breakdown the impact which acquisitions had at the profits level.

Earnings per share on a fully-diluted basis were up 15 per cent from 38p to 43.7p a share, after a reduction in the tax charge to just under 15 per cent (19.2 per cent). The company is paying a second interim dividend of 3p – having already forecast a total of 12.2p for the 16 month period to end-1988.

The pre-tax figure is scored after interest charges of £12.3m (£9.55m). At the September year-end gearing was standing at about 135 per cent. Since then, however, Polly has raised £133m through a rights issue, and said that the current gearing level was around 60 per cent. The depreciation charge was doubled to £14m.



In all three main divisions Polly has seen pre-tax margins reduce. On the agriculture front, pre-tax profits of £80.3m were achieved on sales of £313.6m, compared with £72.6m and £227.3m respectively last time. This, according to Polly, reflected the purchase and expansion of lower margin marketing businesses, although it suggested that margins would improve as these became fully integrated.

On the electronics side – a division enlarged by the acquisition of Capetronic in October 1987 – pre-tax profits amounted to £22.3m (£9.3m) on sales of £297.9m (£91.1m). Within the division, Russell Hobbs Tower made a loss – the figure is undisclosed – due to "non-recurring costs in turning the business round". However, Polly said that it was now trading profitably.

Textiles, meanwhile, contributed pre-tax profits up from £4.3m to £4.7m on sales of £93.9m (£62.4m). Polly added that the 407-bedroom hotel which it is building in southern Turkey will be operational before end-1989, while a block of 39 holiday apartments have opened in northern Cyprus. It also plans to open a Pizza Hut restaurant in Istanbul this year – Polly holds the national franchise for Turkey.

Yesterday, Mr Asil Nadir, chairman, said that the company now had turnover of over £300m from Europe, and that aims were to improve earnings quality, expand in Europe, North America and the Far East, and reduce dependence on one geographical area.

See Lex

Warning on profits hits Spice shares

By Nikki Tait

SHARES in Spice, USM-quoted autoparts wholesaler and distributor, tumbled 10p to 81p yesterday on news of boardroom changes and a warning that the company would report "little better than a breakeven situation" for the year to end-September.

Spice added that it was unlikely that a final dividend would be paid and a small loss was expected in the first half of the current year.

The shares reached a peak of 248p in July 1987, but have fallen steadily since then.

Mr Kevin Cabbage, managing director since 1987, resigned yesterday morning. Mr Gordon Spice, chairman, who is now also resuming the managing director's role, declined to elaborate on Mr Cabbage's departure.

In April, Spice warned that the mild winter had depressed demand for its products, and forecast reduced interim profits. These were reported at £268,000 before tax, compared with £537,000 in the previous first half.

The company said yesterday that "measures taken to combat the competitive pressures in the cash-and-carry divisions have taken longer to take effect than envisaged," and the new warehouse in Birmingham, which opened belatedly in May, incurred greater start-up costs than expected.

Forced into cutting the bus route

John Griffiths on Laird's decision to sell its transport businesses

Missing the bus 17 months ago, it became clear yesterday, has had far-reaching consequences for Mr John Gardiner and his Laird Group.

Those close to Laird's extrovert chairman and chief executive say he is convinced that if Laird's bid for the formerly state-owned Leyland Bus had been successful in 1986, its merger with Laird's Metro-Cammell Weymann bus subsidiary would have formed the nucleus of a viable UK-owned bus industry.

Instead Leyland Bus, freed of £55m of debts courtesy of the taxpayer, was sold to a management consortium for just over £4m. In March this year, the sound of Mr Gardiner's grinding teeth could be heard at Laird's London headquarters as the consortium sold the bus manufacturer on to Volvo of Sweden for something over £25m.

It was this move, coupled with long-mounting losses on MCW's own bus operations, which provided the catalyst for Laird's decision to dispose of all three businesses within its transport systems division – train, bus and coach, and taxi manufacture.

Although the decision was announced only yesterday, it was actually taken in July.

In taking it, Laird has reinforced with a vengeance its long-held reputation for decisiveness when it comes to handling loss-making businesses.

Many in UK industry have no difficulty remembering the last example, in 1980, when with no hesitation Laird shut down Patent Shaft Steel, one of the largest private sector steelmakers, when its profitability was hit by recession.

The sale of the businesses, which is intended to be completed by around May of next year, will take out about 15 per cent of the engineering and services group's total turnover, which reached £395m in 1987.

No one at Laird is prepared to say what the losses on bus manufacture have been in advance of the publication of a report the group commissioned on the business from Deloitte Haskins & Sells, or indeed what kind of price Laird hopes to get for the operation.

But since both the railway and taxi activities are described as profitable, yet all three combined contributed less than 4 per cent of Laird's £36.5m profit before tax and interest last year, the inevitable conclusion is that the losses are considerable.

This is confirmed by Laird's statement yesterday that "substantial" provisions will have to be made against future trading losses and for rationalisation costs.

Ironically, only five years ago, transport accounted for more than half of Laird's profit before tax and interest.

Still unclear last night were the implications for the 1,200 workers at MCW's facilities in Washwood Heath, Birmingham, where buses and MCW's Metrocab taxi are produced. They are important because Washwood Heath is in one of Birmingham's highest unemployment areas and MCW is one of the city's biggest employers.

There have been no inquiries from rivals about the bus business yet, for the simple reason that – unlike the railway and taxi businesses – there had been no hints that it could be up for sale.

Some industry observers suggest, however, that most likely candidates are larger European groups seeking a firmer foothold in the UK in advance of 1992, and to whom the MCW's wide and long-established market contacts would be valuable.


John Gardiner: grinding teeth at missing Leyland Bus

MCW's current bus output is also far from token: some 600 medium-sized "midi-buses" and 150 double-decker buses a year.

However, while the midi-bus was developed in response to the mid-1980s deregulation of UK bus transport, it has not been able to compensate for the associated collapse of the much more valuable double-decker market. At its peak, MCW was producing nearly 500 of these a year, for about £80,000 per unit.

Substantial employment at Washwood Heath could depend on a European producer following Volvo's practice of importing chassis and running gear, but using UK facilities for the labour-intensive business of body-building.

The final carrot on the buses side would be the potentially lucrative spare parts business.

Selling off the railway and taxi businesses promises to be much less problematical, although here, too, no indications are emerging of a likely asking price.

There have already been at least eight tentative approaches for Metro-Cammell, the rail company. It is understood that one is from Japan, one from Canada, three from inside the UK and three from continental Europe.

It is not hard to see why. MC has close and long-standing ties with British Rail, the London Underground and transit systems overseas, most notably Hong Kong.

Both BR and the Underground have major investment programmes far into the 1990s likely to generate £1bn or more in potential orders for train and rolling stock makers.

The problem, however, is that MC remains a small- to medium-sized company in the business and that, with 1992 approaching, some of the really big world players are converging on the UK. Just like MC, British Rail Engineering (BREL) appears to be on the priority shopping list of companies like Asea Brown-Boveri and GEC.

The sector appears set to polarise between electronics companies also capable of assembling trains, such as Siemens, and traditional rolling stock manufacturers.

Laird decided it had either to get bigger by buying into the motive power end as well as producing rolling stock – or get out of the business altogether. It has chosen the latter.

The taxi business is much smaller – the cabs are assembled by only 50 of the Washwood Heath workforce – but in marketing terms has been extremely successful in providing the first real competition for 17 years for the traditional FX4 black taxi made by Carbodies, a Manganese Bronze Holdings subsidiary.

Production had built up to a rate of 1,500 units a year by July, following its launch at the end of last year. However, costs have proved higher than originally forecast, and production has been cut back to 700 a year while the cost base is being trimmed.

Again, Laird seems not to have a disposal problem for the Metrocab – two potential buyers are said to have already tried to flag it down.

Midsummer Leisure up sharply

By Andrew Hill

MIDSUMMER LEISURE, acquisitive pub, snooker club, disco and shop-fitting company, almost trebled profits in the year to September 30, from £2.53m to £6.43m before tax.

Earnings per share rose 51 per cent to 10.4p (6.9p). The recommended final dividend of 2p makes 2.8p (1.6p) for the year.

The bulk of profits and turnover – which rose to £40.07m (£17.82m) – came from leisure retailing, including discos, Riley snooker clubs and the Bruce's Brewery chain of pubs. Mr Adam Page, chairman, said the group was opening new pubs and clubs at a rate of about one unit a week.

The division's operating profits increased to £6.17m (£2.56m) on turnover doubled to £26.79m (£13.08m).

Mr Page said the division's trading in the current year was up 75 per cent on the equivalent period.

Leisure services, which makes snooker tables and includes the Maygay fruit machines business bought in August, increased operating profits to £886,000 (£177,000) during the year on turnover up to £8.83m (£2.45m). The contract services shop-fitting operation contributed £767,000 (£240,000) on sales of £4.45m (£1.99m).

Borrowings at the year-end stood at 60 per cent of shareholders' funds, but Mr Page expected this to drop as properties were revalued.

● COMMENT

Midsummer, like many leisure groups, is expanding so fast that it is difficult to extract meaningful statistics from these figures, which were slightly ahead of most analysts' expectations. The group's innovative leisure retailing style, moving into lucrative niches in the market, is well supported by contract and leisure services. The company is about to open a new Bruce's Brewery pub in Derby, which, unusually for the Firkin concept, will be one of the largest in the area, while hopes for the Maygay fruit machine business are pinned on a new model to be launched in January, developed by "boffins", as Mr Page describes them, won over from market leader Bell Fruit. Midsummer shares rose 3p yesterday to 170p. A prospective multiple of about 10 or 11, based on forecast pre-tax profits of up to £11m, is a premium to the sector and market, but Midsummer's growth prospects make the stock attractive.

Wardle extends Armstrong offer

Wardle Storeys, plastic sheeting and security equipment company, yesterday said it had received valid acceptances in respect of 2.3 per cent of Armstrong Equipment, target of its £34m bid, writes Clare Pearson.

It also extended its offer to December 28.

Taking into account a 1.2 per cent holding assented by an associate, Wardle had received valid acceptances in respect of 1.93m shares – about 3.6 per cent of the company – by Tuesday afternoon. The associate has assented a further 716,000 shares, which are subject to certification.

United Scientific falls to £10m

By Ray Bashford

UNITED SCIENTIFIC Holdings, the defence equipment group, exposed yesterday the full impact of the problems which last September led to the resignation of Mr David Fraser, the chief executive, as part of a major management shake-up.

The company suffered a £996,000 fall in pre-tax profits to £10.1m during the year to September 30, roughly in line with the revised forecasts which were issued when the management changes were made.

The company's problems were centred at its Avimo subsidiary in Yeovil, which makes sophisticated electronic sights, where losses were in excess of £3m.

Turnover for the year rose from £120.2m to £120.5m. The company will pay a total dividend of 7.3p a share compared with 6.6p in 1987, following a final payment of 4.6p (4.2p).

UK COMPANY NEWS

Shares fall as Charter denies move

By Clare Pearson

SHARES IN Charter Consolidated fell 24p to 465p yesterday after Mr Richard Wakeling, acting chief executive, moved to squash speculation that there was about to be any change in the mining and industrial group's corporate role.

"Despite the wild rumours in analysts' circulars and the press, we are not planning to bid for Consolidated Gold Fields, nor am I aware of any other dramatic corporate move," he said.

He also said that Sir Michael Edwardes had been wrongly presented as the prime mover behind the recent changes at the company.

Most of them had been hatched internally long before his appointment as non-executive chairman as part of a boardroom upheaval last month, Mr Wakeling said.

Yesterday there was news of a further change with the appointment as deputy chairman of Mr David Davies, former joint chairman of Hill Samuel, merchant bank.

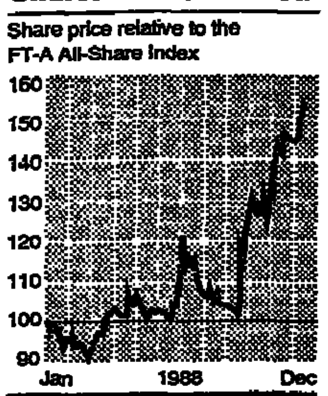
Sir Michael heads Minorco, a 36 per cent shareholder in Charter.

Minorco's recent £2.9bn offer for Consolidated Gold Fields was referred to the Monopolies and Mergers Commission and it has been suggested that Charter might make a more suitable vehicle for a renewed offer.

Mr Wakeling was speaking as Charter unveiled pre-tax profits 23 per cent higher at £32.09m in the six months to September 30.

Charter Consolidated

Share price relative to the FT-A All-Share Index



This was mainly thanks to a 44 per cent improvement in the industrial subsidiaries – the future of which are now under review.

The start of the strategic review has followed Sir Michael's appointment, the departure of Mr Neil Clarke, former chief executive, as well as a clutch of directors, and the dismissal of about half the 90 head-office staff.

Mr Wakeling said Charter was aiming to become much more actively involved in the management of companies within the group, as well as to reduce its wide diversification.

But he could not say at this stage which parts might be sold.

However he said he did not think it was feasible for Charter to turn either Johnson Matthey, the precious metals company in which it has a 38 per cent stake, or Cape Industries, the 74 per cent-owned building materials group, into wholly-owned subsidiaries in the foreseeable future.

All the costs of the staff dismissals, as well as payments to departing directors, were covered by a £1.4m charge against operating profits of £27.88m (£23.73m).

Provisions for reorganisation costs in subsidiary companies were covered by an extraordinary charge of £1.91m.

Charter said it was seeking to "reinvigorate" the management of Anderson Strathclyde, Scottish mining equipment company. This follows the resignation of Mr Anthony Owston, executive director for mining.

It said it was also taking action to deal with the loss-making parts of the Shand UK contracting business.

The main constituents of the operating profits were £7.31m (£5.06m) from the engineering division, £5.77m (£4.82m) from building products and materials, £1.28m (£550,000) from contracting, and £1.46m (£746,000) from mining.

Precious metals contributed £12m (£11.18m), reflecting the nearly-flat performance of Johnson Matthey.

Investment income rose to £1.81m (£518,000) while net interest receivable rose to £5.92m (£3.87m), reflecting the increase in gross cash balances to £210m.

Earnings per 2p share rose to 19.9p (17.2p) and the interim dividend is increased to 4.75p (4.25p).

● **COMMENT**

Mr Wakeling certainly succeeded in taking the froth out of Charter's shares, which have enjoyed unwonted attention ever since Minorco launched its bid for Gold Fields in September. But then it would have been most improper of him to talk about any corporate move before it was made, whilst if another company were planning to bid for Charter, he would hardly be the best source of the information. And despite his claim that Sir Michael only looks in once a week, it is surely far too early to say who really calls the shots at the new-look company. So yesterday's share price fall seems thoroughly overdone. Even if nothing happens, Charter, much of a rag-bag up to now, appears to have a future in its own right. If Johnson Matthey improves a bit, Charter should make £64m, for a prospective p/e of 11. More importantly, the shares are still comfortably below their asset value.

Plessey sets out its reasons for seeking court injunction

By Nikki Tait in London and David Buchan in Strasbourg

PLESSEY yesterday wrote to shareholders explaining its reasons for seeking a court injunction against GEC-Siemens, the joint venture company which is making a hostile £1.7bn bid for the British electronics group. A full hearing of the matter is due in the courts today.

In the letter, Sir John Clark, Plessey chairman, says that the board was concerned that, if the bid timetable was allowed to continue without the European Commission being given an opportunity to examine the arrangements fully, any reversal of the effects of the bid would be difficult or impossible to implement.

Plessey is arguing that the offer is illegal under Article 85 of the Treaty of Rome, which deals with the issue of consortium bids or trading arrangements in which two or more parties come together in a joint business deal.

Had the court question not arisen, GEC-Siemens would have been required to put out its offer document yesterday – the maximum 28 days after announcing the bid. However, timetables can be extended in these circumstances and – as anticipated – the formal offer document did not appear.

In Strasbourg, Plessey told the European Parliament that immediate review by the EC Commission was essential to avoid any subsequent order by Brussels for the dissolution of a takeover.

Mr Philip Parker, a Plessey public relations director, told said it would be "absolutely unconscionable for the shareholders of Plessey if at some point down the line the Commission were to order a demerger."

Mr Parker said his company was seeking to "exploit every legal means" to frustrate the takeove. However, Plessey was unable to produce evidence as to how the takeover would restrain competition, or create a dominant position, in the EC market. Plessey executives said such evidence, contained in their submission to Brussels, was complex, varying from product to product and from country to country in the EC.

London Shop hits at Peel

LONDON SHOP, the property company facing a £282m bid from Peel Holdings, yesterday attacked Peel's "meaningless and misleading" comparisons concerning its performance.

London Shop said in its defence document that its five-yearly system of rent reviews meant that its income had not yet reflected the sharp rise in rental values. Accordingly, it was wrong to compare its rental income growth with that of open market rental values.

As a result of this time lag, its property portfolio would show strong growth in rental income over coming years, said London Shop. This benefit should belong to its shareholders, not to Peel.

Peel was also accused of making vague generalisations about "missed development opportunities." The defence document said Peel would appear to have little or no experience in the development or refurbishment of its type of retail property.

Peel yesterday responded by criticising the scope of London Shop's development and refurbishment programme, which is laid out in the defence document. Mr John Whittaker, Peel chairman, said the document demonstrated how small London Shop's development programme was in comparison with its portfolio as a whole.

Yorkshire TV sees advance to £15.6m

By Fiona Thompson

YORKSHIRE TELEVISION yesterday reported pre-tax profits ahead 15.6 per cent to £15.64m for the year to September 30, despite a decline in its share of total ITV network advertising revenue.

Earnings per share rose to 28.7p (24.2p) and a final dividend of 6.8p makes 9.8p (8p) for the year.

Advertising revenue rose by 8 per cent from £119.6m to £129.41m, compared with the network increase of 11.3 per cent.

The continued shift of advertising revenue, especially financial services related, to the southern based companies led to Yorkshire's share of network advertising declining from 9.19 per cent to 8.93 per cent.

Mr Clive Leach, managing director, said steps were being taken to regain market share.

Yorkshire had started a series of presentations with financial services companies to put the case for advertising in the north. He was concerned, for example, that much of the recent privatisation advertising had concentrated on the south.

"We didn't get our fair share during the British Steel flotation. The south east has 8.9 per cent of homes but picked up 15 per cent of the advertising buget, the north has 10.1 per cent of homes but got just 7 per cent of the budget."

Mr Leach said Yorkshire had managed to increase profits despite the drop in advertising market share because of cost controls and more efficient production.

Job cuts in the year totalled 79, reducing the salaries bill by £900,000 to £36.9m. Since the year end the number of employees has dropped from 1,567 to 1,522 and the company aims to get this down to 1,400 by next June. A charge of £3.7m has been made for reorganisation costs to fund early retirements and redundancies.

The company has also introduced multi-skilling practices, strict job demarcation has gone and actuality crewing, where programme makers decide how many crew members are needed rather than being allocated a set number, is in place.

Yorkshire has written off its £5.45m investment in Super Channel and this, with £292,000 closure costs of Starvision, were listed as a £5.74m extraordinary debit.

Overseas sales rose from £2.8m to £3.6m. The Exchequer levy was £6.75m (£6.43m) and tax took £5.92m (£5.51m).

● **COMMENT**

Given that Yorkshire has taken £3.7m reorganisation costs (£2 net of levy relief) above the line, these figures are marginally better than expected. The north's battle for advertising market share will undoubtedly continue, despite the signs that advertisers are fed up with the high London prices, but Yorkshire is making headway on the cost cutting front. This, and the recent reorganisation into divisions, is aimed at positioning the company for the next franchise. If it loses the franchise, it intends to continue as an independent programme maker. Analysts are looking for £18.5m pre-tax profits for this year, putting the shares, unchanged at 207p last night, on a reasonable prospective p/e of 6.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends.

TODAY

Interims- Builder, Bulmer (HP), CH Industrials, Clarke Hooper, Electric & General Inv, Firth (GM), Greig Shipping, London & Merchant Securities, Marler Estates, Melville Street Inv, Northamber, Woolworth Intl, Western Selection.

Finals- Associated Paper Inds, Bradstock, Dwyer, Electra Inv Trust, Lee (A), Moss Trust, Staida, Viking Packaging, Watson & Philip, Westland.

FUTURE DATES

Interims-

Anchor Intl Fund	Dec. 27
Firstland Oil & Gas	Dec. 22
Tamaris	Dec. 19
Tinsley Robor	Dec. 16

Finals-

Toshiba	Dec. 20

COMPANY NEWS IN BRIEF

ABI has acquired the assets of Multichem of Atlanta, US, for $1.7m (£918,000). Multichem is a distributor and packager of waxes, resins and silicones and returned post-tax profits of $200,000 in the year to June 30.

ACAL has invested $750,000 (£405,000) in Champion Technologies Inc, a management buy-out of the crystal oscillator division of Motorola Inc. The investment is in the form of redeemable and convertible preference shares, which on conversion will provide Acal with a holding of 18 per cent.

APPLIED HOLOGRAPHICS has acquired the stocks, assets, patents, intellectual property rights and on-going business of Advanced Dimensional Displays for $700,000 (£384,000).

ARCHIMEDES INVESTMENT Trust: Net asset value per 50p capital share 447.06p (431.08p) at October 31. Net revenue for the year £180,274 (£159,898). Second interim dividend per income share 8.75p (7.5p) making 14.55p (13p). Earnings 14.7p (13.1p).

BBB DESIGN Group, USM quoted, achieved turnover of £1.26m (£1.2m) but pre-tax profit fell to £221,000 (£373,000) in half year ended October 31 1988. Dividend will be decided when full results known.

BOGOD-PELEPAH (distributor of sewing machines and parts): Turnover £3.05m (£3.92m) and pre-tax profit £98,000 (£94,000) for half-year to September 30 1988. Interim dividend – ordinary 0.1p (0.1p) and 'A' ordinary 0.2p (0.2p). Earnings per 10p ordinary 0.6005p (0.568p) and per 10p 'A' (restricted voting) 1.201p (1.136p) after tax of £34,000 (£33,000).

BRITANNIA Security Group:As at 3pm on December 9 valid acceptances had been received in respect of 14.14m ordinary.

CHINA & EASTERN Investment Trust: net asset value at November 30 was $1.60 (86p) per $0.5 share, against $1.661 at July 31.

CLYDESDALE INVESTMENT Trust (formerly Unitycorp Trust): net asset value at December 12 was 103.05p per ordinary share, against 95.5p at March 31.

FLEDGLING JAPAN Investment Company: net asset value at December 12 was Y262 (£1.1568) undiluted and Y243 (£1.0738) diluted, as against Y264.1 at March 31.

GEEVOR (seller of tin concentrates and by-products formerly known as Geevor Tin Mines): Loss before tax £260,000 (profits £207,000) in six months to September 30. Turnover £1.28m (£346,000). Loss per share 3.4p (earnings 3.2p).

GLYNWED International:Joint venture established in Italy, in which Glynwed will have 50.5% stake, for the production and distribution of high quality plastic pipe mouldings and pipe fittings.Glynwed's partner is Arvedi Group, of Cremona.

GR HOLDINGS: the split in the nominal value of the company's shares from 25p to 5p will become effective from December 19, and not December 15 as previously announced.

CHRISTY HUNT: Barclays Nominees (KWS) has agreed to accept the offer by Triplex Lloyd in respect of its holding of 2.53m Christy ordinary shares (5.2 per cent).

UK COMPANY NEWS

Yale expands in US with £21.8m Miami-Carey buy

By Clay Harris

YALE AND VALOR, locks and domestic appliances group, is to pay $40m (£21.8m) for Miami-Carey, a US manufacturer of bathroom cabinets and associated products.

Miami-Carey will be integrated with NuTone, Yale's US-based domestic appliances subsidiary.

The deal will add products to NuTone's range and give it a complementary distribution network; NuTone specialises in built-in products sold direct to builders while Miami-Carey distributes more through DIY outlets.

It is likely, however, to lead to rationalisation at Miami-Carey's three US manufacturing plants. Yale said NuTone's own factories had sufficient capacity to take on all the work now done by Miami-Carey at Monroe, Ohio; Elkhart, Indiana; and Swainsboro, Georgia.

Such cost savings would lead to a substantial improvement in divisional performance and enhanced earnings per share, Yale said. Mr Michael Montague, chairman, yesterday described Miami-Carey as a "perfect match" for NuTone.

The stock market's reaction was less euphoric, as Yale shares fell nearly 5 per cent, closing 15p lower at 301p. This appeared, however, to reflect a continued waning of takeover speculation about Yale rather than doubts about the merits of yesterday's deal.

Yale has vendor-placed nearly 7.44m shares, about 6.4 per cent of its enlarged ordinary share capital.

This is the group's first equity issue since June 1987, when – then simply called Valor – it quadrupled the number of its shares with a £265m open offer to finance the $460m acquisition of NuTone and Yale Securities, locks group.

Mr Tony Marson, finance director, said the equity issue was necessary to bolster the company's share premium account in order to write off about $32m in goodwill to be acquired with Miami-Carey. The US company has warranted net tangible assets of at least $9m at the end of this month. In 1987, Miami-Carey reported operating profits of $4m on sales of $57.7m. Interest charges amounted to $1m.

The company has been privately owned since 1983, when its managers bought it from Jim Walter Corporation, the diversified Florida-based construction group.

In addition to bathroom accessories such as ventilation equipment, Miami-Carey also makes or distributes cooker hoods, door chimes and lighting products.

Charterhouse rises to £34.6m

By David Lascelles, Banking Editor

CHARTERHOUSE, the merchant banking arm of the Royal Bank of Scotland Group, earned pre-tax profits of £34.6m in the year to September 30, up from £32m the year before, according to the annual report released yesterday.

The main increase came in the bank's development capital business where profits rose from £11.9m to £17.2m following an active year in investments, flotations and management buy-outs.

The merchant banking side earned £17.6m, down from £17.9m. Mr Victor Blank, chief executive, said that earnings from banking and corporate finance activities had increased, reflecting Charterhouse's growing success in these areas. The bank acted in 133 deals with a value of £5.3bn.

But the newly constituted capital markets group had incurred a loss due to start-up costs. Mr Blank expected it to come into profit in the next financial year. The group is principally active in the risk-hedging business where it provides tailored services for clients of the Royal Bank group as a whole.

Stockbroking activities lost £400,000, compared to a profit of £1.8m. The division suffered from the slackness of the equities markets, but continued to expand its activities and client base, said Mr Blank.

He said he was encouraged by the results in a year dominated by the October 1987 market crash. He expected Charterhouse to show further progress this year, including its growing activities on the continent.

All-round growth for Hoskyns

GROWTH ACROSS all three divisions resulted in continuing progress at Hoskyns, computer services company, in the year to October 31. Pre-tax profits rose 46 per cent from £6.51m to £9.51m on turnover up 39 per cent from £79.02m to £110m.

An increased final dividend of 2p is recommended, for a total of 2.9p (2.1p) on earnings per 5p share of 16.1p (11.3p).

The directors said that growth in revenues was particularly strong from professional services, up from £8.9m to £12.7m. Systems integration revenues grew 19 per cent to £47.8m and facilities management revenues rose 58 per cent to £43.3m.

The three acquisitions made during the year – CBT in PC-based training programmes, Insight in the IBM mid-range market and Elfton Control and Computer Systems, specialist in factory automation systems – had strengthened the group's presence in what it saw as growth markets.

Plessey took over Hoskyns in the summer in a £164m agreed bid. Since then Plessey has transferred its internal information technology function to Hoskyns in a facilities management agreement worth £25m per annum and 375 Plessey employees have joined the group, which now employs more than 3,020 (1,850).

Also during the year, Hoskyns increased the percentage of public sector work from 13 per cent to 17 per cent. A five-year contract worth £42m with the London Residuary Body provided an important foothold.

Corporate Estates to merge with Marylebone

By Paul Cheeseright, Property Correspondent

CORPORATE Estates Properties, which obtained a USM listing in August 1987, is merging with Marylebone Estates to create a company with property assets of £70m.

The merger has been brought about by the issue to directors of Marylebone of 15.16m new Corporate Estates ordinary shares at 75p.

The figure is the same as the net asset value of the merged company and 23p more than the market price of Corporate Estates just before the merger announcement.

Marylebone directors have sold on some of the shares but are retaining 13.5m to give them a near 30 per cent stake in the merged company. The effect is to dilute the holdings of Corporate Estates' institutional shareholders, led by Ensign Trust.

Corporate Estates brings £50m worth of property, situated in London and the south east, to the merged company while Marylebone brings in £20m worth, largely from central London with a concentration on the Smithfield area.

Mr Leonard Phillips, chairman of the merged company, said that the focus would be on building up investment income to make up 80 per cent of earnings by 1991-92. At the moment, half of Corporate Estates earnings come from property trading.

Corporate Estates is forecasting pre-tax profits of £3.25m for the year to December 1988, four times more than the previous year. Marylebone had pre-tax profits of £230,000 in the seven months to October 1988 and expects profits of £1.75m for the year to December 1989.

Sanwa Bank listing

Sanwa Bank is joining the London Stock Exchange through a listing arranged by Kleinwort Benson, Sanwa International and Nomura International. Broker to the issue is Kleinwort Benson Securities, and dealings are expected to begin today.

The listing makes Sanwa the first Japanese bank to trade on the three major European stock exchanges of London, Paris and Frankfurt.

ERF at £2.6m midway, on line for £7m

By Kevin Done, Motor Industry Correspondent

ERF, the independent UK heavy truck maker, increased its profits by 65 per cent in the six months to October 31. Pre-tax profits jumped from £1.6m to £2.64m, while turnover rose by 37 per cent to £71.57m compared with £52.06m in the corresponding period of 1987.

Earnings per share increased by 59 per cent to 30.32p. The interim dividend is doubled to 4p, partly to reduce disparity with the final payment.

ERF has staged a dramatic recovery in the last two years. It increased pre-tax profits to £5.6m in the year to the end of March 1988 from £718,000 in 1986-87 after making losses in four of the previous six years.

Pre-tax profits are expected to exceed £7m in the present year, and Mr Peter Foden, chairman and chief executive, said yesterday that the order book was good through to the end of March.

ERF has emerged as one of the star performers in the booming UK heavy truck market (above 15 tonnes).

In the first 11 months of 1988 it has increased registrations by 53.55 per cent to 3,530 trucks, in a market that has increased overall by 19.08 per cent.

Against heavy competition from the big West European truck makers, ERF has raised its share of the UK heavy truck market in the first 11 months from 7.75 per cent to 10 per cent, and has leap-frogged Iveco Ford and Scania to take fourth place behind DAF, Volvo and Mercedes-Benz.

Truck output in the first nine months of 1988 was 54 per cent higher than a year ago at 3,034 and is expected to reach a record level of more than 4,000 trucks for the full year.

The previous production peak was reached in 1979 at 3,158 vehicles, before the company's fortunes nose-dived as the UK truck market plunged into recession and brought ERF close to financial collapse in the early 1980s.

Helped by the success of its E-series 16-38 tonnes range launched in 1986, ERF has more than doubled its production in the last two years and output is now running at 21 trucks a day and will rise to 23 trucks a day early next year.

Mr Foden said the group was planning to produce 5,000 trucks next year and was aiming to capture 15 per cent of the heavy truck market by the early 1990s.

LandLeisure up 37% at midway

LANDLEISURE, leisure and property group recently taken over by Leisure Investments in an £170m recommended bid, yesterday reported its results for the six months to October 31 showing a 37 per cent rise in profits. The taxable result rose from £8.12m to £11.1m on turnover nearly doubled from £22.98m to £45.72m.

There is no interim dividend due to the takeover. Leisure Investments declared its offer wholly unconditional this week after receiving acceptances in respect of 82.6 per cent of the ordinary shares.

Fuller Smith & Turner rises 6% to £3.4m

By Lisa Wood

FULLER SMITH & Turner, USM-quoted London brewer, raised pre-tax profits for the 26 weeks to September 30 by 6 per cent from £3.22m to £3.4m.

Earnings per share were 8.9p (8.3p), and an interim dividend of 1.55p (1.32p) was declared.

Turnover increased by 8 per cent to £25.85m (£23.84m). Fuller does not include property profits above the line at the interim stage.

The company said a small fall in beer volumes was due to the poor summer weather, the Easter trade falling into the previous year and the loss of three large London pubs through compulsory purchase.

Of the brewer's three hotels, two performed well and capital investment is planned for the third.

Sandell comes to USM with £2.9m valuation

By Fiona Thompson

SANDELL GROUP, a West Midlands-based office fitting and refurbishment company, is joining the Unlisted Securities Market via a placing valuing the company at £2.93m.

Stockbrokers Greig, Middleton are placing 750,000 shares, representing 30 per cent of the enlarged equity, at 117p to raise £792,500. The company will receive £500,000 of this, to be used for expansion.

Sandell specialises in making and installing office partitions and suspended ceilings. It intends to grow by acquisition in associated services.

Pre-tax profits have risen from £25,000 in 1984 to £306,220 for the year to September 30 1988. This puts the shares, at the placing price, on an historic p/e of 11.5.

PUBLIC WORKS LOAN BOARD RATES

Effective December 14

Years	Quota loans repaid by EIP†	At††	at maturity§	Non-quota loans A* repaid by EIP†	At††	at maturity§
1			12⅛			12⅞
Over 1 up to 2	12	11⅞	11½	13	12⅞	12¼
Over 2 up to 3	11⅝	11⅝	11¼	12⅝	12⅝	12
Over 3 up to 4	11⅜	11⅜	11	12⅜	12⅜	11¾
Over 4 up to 5	11¼	11¼	11	12¼	12¼	11¾
Over 5 up to 6	11⅛	11⅛	11	11⅝	11⅝	11½
Over 6 up to 7	11⅛	11	10⅞	11⅝	11½	11⅜
Over 7 up to 8	11	11	10¾	11½	11½	11¼
Over 8 up to 9	11	11	10½	11½	11½	11
Over 9 up to 10	11	11	10⅜	11½	11½	10⅞
Over 10 up to 15	10⅞	10⅜	9⅞	11⅜	10⅞	10⅜
Over 15 up to 25	10	9¾	9½	10½	10¼	10
Over 25	9⅝	9½	9⅜	10⅛	10	9⅞

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

UK COMPANY NEWS

MMC studies effects of a Hillsdown bid for Pittard

By Nikki Tait

THE MONOPOLIES and Mergers Commission is to consider the potential implications of an offer by Hillsdown Holdings, food, furniture and property group, for Pittard Garnar, leather group.

The decision to have the MMC look at the effects of any suchoffer has come, effectively, at Hillsdown's request. However, the company stressed that it has not decided yet whether it wishes to bid for Pittard, even if this were permitted.

Already, a £41m offer for Pittard by Strong & Fisher, a rival leather group, is being examined by the MMC. In this case, the grounds were given as the "possible effects on competition in a number of stages in the production of clothing leather from sheepskins".

Since then, Hillsdown – which owns a 16.6 per cent stake in Pittard as a result of its earlier bid for the former Garnar Booth group, and which has leather interests of its own – has asked the Secretary of State for Trade and Industry whether he would refer any Hillsdown offer for Pittard, or even any increase in its stake.

Yesterday, announcing the decision to refer an examination of this alternative bid possibility to the MMC, the Secretary of State said that there were "possible effects on competition in sheepskin fellmongering, particularly in Scotland" – somewhat narrower grounds than those cited in the Strong & Fisher reference.

While the MMC inquiry is going on, Hillsdown will not be able to acquire any more Pittard shares, or exercise more than 15 per cent of Pittard's voting rights.

It said yesterday that it intended to co-operate fully with the investigation, and "hoped that the current uncertainty surrounding the UK leather industry could be settled as soon as possible". The MMC has been asked to report within three months.

Yesterday, Pittard said that it was very pleased with the decision, and believed that there was a case to be answered. Its shares were steady at 195p.

Chemring

Chemring Group increased pre-tax profits by £406,000 to £4.26m at the year ended September 30 1988. Turnover rose to £22.1m (£21.5m) and after tax of £1.6m (£1.4m) earnings were 69.2p (62p) on a nil distribution basis. The final dividend is raised to 14p (12p) making 21.5p (18.6p).

Halma rises 31% to over £5m

A 31 per cent improvement in pre-tax profits was announced by Halma for the 26 weeks to October 31. On turnover 20 per cent ahead at £28.16m against £23.39m, taxable profits rose from £3.88m to £5.09m.

The group, which makes safety systems and environmental control and security equipment, is paying an increased interim dividend of 0.816p (0.628p). Earnings per 10p share moved up to 5.33p (4.09p).

Mr David Barber, chairman, maintained his confidence in the group's "outstanding long-term growth prospects". He made special mention of the "excellent performances" by Apollo, Volumatic and Wilkinson & Simpson.

The group's June acquisitions, American Tech Manufacturing, Ellis (Colchester) and Fortess Security Pty all traded in line with expectations.

Eve advances in first half

Eve Group, USM-quoted contracting, plant hire and property development company, lifted taxable profits from £1.48m to £1.79m in the six months to end-September. Turnover rose 14 per cent to £22.27m.

Mr Roger Ames, chairman, said that work-in-hand for the contracting divisions was at record levels.

Earnings per share were 12.4p (10.3p) and the interim dividend is raised to 2p (1.5p).

Doctus 68% ahead to £1.8m

DOCTUS, the management consultancy which last year reversed into the ailing Smith Whitworth textile machinery group, yesterday unveiled taxable profits 68 per cent higher at £1.81m for the year ended September 30 1988. The comparisons are restated for an 18-month period.

The advance from £1.08m was posted on turnover of £43.89m (£45.65m). Operating profits rose to £2.32m (£2.1m), while losses from discontinued operations declined to £119,000, against £475,000 last time.

Mr Brian Blake, chairman, said the results "provide a very strong financial base for the company's future growth." He said the group intended to build the business into a leading international profit improvement services group.

Earnings per 5p share advanced to 10.28p (4.51p), and the proposed final dividend of 1.5p makes 2p (0.25p)

Termination and closure costs relating to the disposal of the Smith Whitworth companies and assets were taken below the line as an extraordinary debit of £224,000 (£85,000).

The DMC management consultancy division had shown a sharp profits increase

Doctus yesterday also announced the purchase of the MSN Group (Management Support Network) for a maximun consideration of £1m.

Kleen-e-ze slips

The expanded Kleen-e-ze Holdings group lifted its sales by 32 per cent to £43m in the year ended September 2 1988, and profits were marginally ahead at £2.11m, against £2.06m.

However, exceptional charges of £391,000 pull this year's pre-tax figure down to £1.72m.

Before such items, earnings were 26.21p (26.8p) and the annual dividend is raised from 6p to 8.47p – the actual total is 12p for 17 months.

Baggeridge in 73% growth

INVESTMENT in kiln technology at the Sedgley works resulted in higher prices and margins and helped Baggeridge Brick to announce pre-tax profits 73 per cent ahead at £7.54m in the year to end-September.

Mr Peter Ward, chairman, said demand was high throughout the period and profits increased at all the group's factories.

The commissioning early next year of a new factory at Waresley would increase substantially the availability of bricks from the group to housing and other markets, he said.

Turnover expanded 47 per cent to £24.96m (£16.99m).

After tax of £2.65m (£1.51m), earnings per share rose to 24.82p (14.22p).

A recommended final dividend of 3.75p makes 5p (3.25p) for the year. Directors also proposed a 1-for-1 scrip issue.

Mr Ward also announced the outcome of the recent revaluation of factory site land and buildings as well as some of the group's clay lands which resulted in a surplus over book value of £6.37m.

Baggeridge would again seek shareholders permission to purchase more of its own shares, he added. Last year, the group bought 300,000 of its own shares.

Titon up 45%

Titon Holdings, window ventilator and fastening supplier, finished the year ended September 30 1988 with a pre-tax profit of £1.37m, a 44.6 per cent advance over the previous £944,000.

The company, which came to the USM at the beginning of the year, is paying a final dividend of 1.76p for a total of 2.6p, from earnings of 8.47p (6.28p).

Mr John Anderson, chairman, said trading had been encouraging throughout the group, and turnover rose 21 per cent to £7.4m (£6.1m).

Midway boost for Ford Sellar Morris

REFLECTING high quality developments and a healthy increase in rental income, Ford Sellar Morris Properties turned in a profit of £6.84m in the half year ended October 31 1988.

In the 15 months ended April 30 1988, the USM-quoted company made £3.5m on turnover of £16.85m. Earnings were 10.49p (8.42p) and the interim dividend is 1.5p (1p).

There was also an extraordinary profit of £2.8m, mainly on the sale of the Review Menswear business. Turnover was £32m.

Development profits represented 61 per cent of operating profit, with investment income, including interest receivable, contributing over 22 per cent.

River Plate

River Plate and General, the split level investment trust, continues to nudge up its stake in TR Australia, part of the troubled Touche Remnant stable of trusts. It announced that it had purchased a further 100,000 shares, taking its total holding to 9.82m shares or 29.95 per cent.

The company remains tight-lipped about its intentions, saying only that it is prepared to be aggressive if necessary.

Atlantic Computers US expansion

By Nikki Tait

ATLANTIC Computers, the computer leasing and services company which is now part of British & Commonwealth Holdings, has acquired two US-based leasing companies - Princeton Computers in New Jersey and G. S. Computer in California.

No purchase price has been disclosed, but the combined figure is understood to be "around" £11m.

The sum will be paid in cash, with part of the consideration deferred one year and dependent on profit performance.

The companies in question are estimated to have 1988 revenues of $70m and $30m respectively, and combined pre-tax profits in 1987 were $4.47m.

Princeton specialises in leasing IBM and DEC computer systems and telecommunications equipment, while GS Computer leases large computer systems to clients in Southern California.

Atlantic says that it now expects its US company to generate revenues of $300m in 1989.

UK COMPANY NEWS

Walker defends recent acquisitions

By David Waller

MR. GEORGE WALKER, chairman of Brent Walker leisure group, yesterday broke his silence on his company's recent, controversial acquisitions of Lonrho's European drinks business and Ellerman Holdings, the pubs, brewing and wine businesses belonging to the enigmatic Barclay brothers.

The acquisitions – which came to a *combined total* of around £500m, including debt – attracted strong criticism from City analysts who thought that the company had paid far too much for a big move into a business area of which it had only limited experience. The shares have sunk from from 379p on the day that the first deal was announced to 316p, capitalising the company at £279m on a fully diluted basis.

In an interview with the Financial Times yesterday, Mr Walker claimed that the acquisitions were part of a carefully planned move that would lead to earnings enhancement in 1989 and a general improvement in the quality of the group's profits.

"In one fell swoop, we become an international trader rather than just a small independent leisure group," he said.

Moreover, he claimed that the company could dramatically reduce its gearing – which will stand at between 125 and 140 per cent when the deals are completed – by raising £300m from the sale of selected assets.

Mr Walker made a number of specific claims:

● The £2.2m pre-tax profit made by the Lonrho businesses in the year to September, for which Brent Walker is to pay £180m, is entirely unrepresentative. Adding back interest on the debt to be retained by Lonrho, the historical profit would be £7m. current year profits are running at 40 per cent above last year, suggesting a pre-tax profit of £10m for 1989.

Mr Walker conceded that the price still looked extremely high, but he pointed to the asset value of the businesses being acquired. Whyte & Mackay's whisky stocks – not included in the £45m book value of the businesses when acquired – had been valued at *£75m. More importantly*, he disclosed yesterday that the four French chateaux had been professionally valued by Weatherall Green Smith at £90m, well above the £75m set upon it by Lonrho. If sold at this price, Brent Walker's outlay would be halved.

● Synergies between the Ellerman businesses – which include the Cameron and Tollemache breweries – and Brent Walker's existing activities would generate enough of an improvement on Ellerman's £12.9m operating profit in 1987 to cover the interest costs arising on £235m purchase consideration of the deal. Debt taken on, which is to be between £84m and £100m, is to be refinanced at 10 per cent.

● "It would be possible to realise £300m from asset sales in the next three months, without having any impact on the group's core businesses." He said that he had received offers for the company's 12 casinos as a group and individually, but denied that he was a forced seller at the insistence of the Gaming Board. Brent Walker's 50 per cent stake in the Trocadero centre could fetch £80m, he said; some £60-£70m could be raised from the sale of the freehold property at 45 Park Lane and £90m from the chateaux. The sale of 100 London pubs *bought as part of the acquisition* of 386 pubs from Grand Metropolitan could fetch over £20m.

To date, analysts have had only limited briefings on the latest deals, and are awaiting a full explanation at the company's Extraordinary General Meeting, scheduled for December 28, at which shareholders will be asked to approve the transactions.

George Walker: Acquisitions were a carefully planned move

Bejam gains injunction on logo use by Iceland

By Philip Coggan

BEJAM, frozen foods retailer, yesterday obtained an injunction in the High Court against the use of its corporate logo on a document circulated by Iceland Frozen Foods, which is making a £238m bid for Bejam.

The injunction is in place until 2pm today, when the substantive issue will be heard. The document sent by Iceland includes a claim that Bejam's current year sales are 5 per cent lower, in volume terms, than in the previous year.

Bejam is understood to dispute this estimate, but, under Takeover Panel rules, cannot release financial information at this stage of the bid. Iceland's offer is due to close on December 21, but could be extended for another eight days.

Bejam's share price, at 153p, is well below the level of both Iceland's all-share offer, currently worth 188p, or its partial cash offer, worth 181p.

Caffyns up to £1.5m

Caffyns' pre-tax profits were £1.5m in the six months to September 30. Earnings worked through at 42.1p (32.1p). Interim dividend is 5p (4.2p).

Advertising spend leaves Bulmer flat at £6.2m

By Lisa Wood

A DRIVE for increased market share in the difficult cider market was the main reason for H P Bulmer yesterday announcing pre-tax profits of £6.2m for the six months to October 28, a 19 per cent drop on the same period last year.

The share price closed 10p down at 142p. Bulmer announced in July that it intended investing significantly higher sums in advertising its cider brands and this could result in a short term fall in cider profits.

Mr Brian Nelson, managing director, yesterday warned that increased marketing support for the cider brands would continue during the second half. "We anticipate improved trading profits from all our other activities but these will not compensate for the lower result from cider and fruit juices which, together with the high interest rates, will mean lower earnings for the full year." he said.

Turnover, at £96.8m (£86.8m) rose 11 per cent. The trading profit of £7.33m (£8.37m) was made up of £4.3m (£6.3m) from cider and fruit juices, while wines, spirits and other drinks contributed £1.4m (£1.2m).

Mr Nelson said the reduction of about £2m in operating profits from the cider operations was mainly attributable to increased marketing expenditure. The company has launched Strongbow LA, a low alcohol cider brand, as well as promoting its main Strongbow brand.

The cider market has been in decline over the past three years and Bulmer, with about 45 per cent of the market, is increasing its market share although volumes have fallen.

In July, Bulmer bought Symonds Cider from Greenall Whitley, and this purchase was the main factor behind increased interest charges of £1.16m (£875,000).

Bulmer said its wines, spirits and soft drinks division continued to show growth.

Two Bowater disposals

By Andrew Hill

BOWATER INDUSTRIES yesterday announced the planned disposal of two more underperforming subsidiaries as part of its policy of concentrating on its core packaging and industrial products business.

The company would not reveal the actual price the buyers will pay for the subsidiaries, but the sales should realise well in excess of £10m for Bowater.

Scott Paper, the biggest maker of sanitary tissue in the world, is to buy Cross Paperware, a supplier of paper plates and napkins and the largest of the two operations to be sold. In 1986, Scott, which is based in the US, bought out Bowater's 50 per cent stake in Bowater Scott UK, which makes Andrex toilet paper and Scotties tissues.

Mr Michael Hartnall, Bowater's finance director, said yesterday: "It is harder for that business to make money now because the Cross brand is much weaker thanks to the supermarkets' expansion in the field."

Bowater is also planning to sell the international freight-forwarding division of its freight services subsidiary to the Harper Group, a US freight company.

"We do not want our portfolio littered with underperforming assets," said Mr Hartnall.

The freight-forwarding division being sold has net annual sales of about £50m and net assets of £3m or £4m. Cross makes annual operating profits of about £1m on sales of £20m.

Managers buy Bunzl arm

By Andrew Hill

BUNZL PULP & Paper (Sales), the paper trading subsidiary of Bunzl, distribution and packaging group, is to be sold to its management for a total of £22m, including debt.

Bunzl has increasingly been concentrating on the distribution and stocking of so-called "fine paper" for the printing and publishing industries, moving away from its paper trading business.

The business is to be bought by Meteor Holdings, a company formed by the subsidiary's management. Meteor's equity is syndicated by 3i, held by 3i, Hill Samuel, and CIN, and funded by National Westminster Bank. Bunzl is supporting Meteor with a £3.5m interest-bearing loan.

Combined sales of Bunzl Pulp & Paper (Sales), and the 11 other companies *being sold* to Meteor were £118m in 1987. Meteor is paying £6.5m cash for the business, and assuming the subsidiaries' borrowings.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Baggeridge Brick	fin	3.75	Feb 15	2.5	5	3.25
BR Building	int	2	-	1	-	3
Bulmer (HP)	int	2.685	Feb 27	2.555	-	6.5
Caffyns	int	5	-	4.2	-	10
Charter Cons	int	4.75	-	4.25	-	14.5
Chemring Group	fin	14	-	12	21.5	18.6
Danae Inv Trust	int	3	-	2.555	-	6.305
Doctus	fin	1.5†	-	0.25	2	0.25★
Eve Group	int	2✗	Mar 30	1.5	-	6
ERF	int	4	Jan 27	2	-	9
Fuller Smith §	int	1.55	-	1.32*	-	3.6*
Halma	int	0.816†	Feb 13	0.628	-	1.636
Hoskyns	fin	2†	-	1.5	2.9	2.1
Midsummer Leis	fin	2†	-	1	2.8	1.6
Moorgate Inv Tst	int	2.4‡	-	1.9	-	6.5
Polly Peck Intl	int	5☆‡	Feb 28	-	-	6.562*
Southend Props	int	1†	Feb 14	0.1	-	0.5♠
Thornton (GW) §	fin	2.5†	Mar 6	2.25	4.25	3.75
Yorkshire TV	fin	6.6	Mar 17	5	9.6	8

*Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ☆Carries scrip option. ‡Second interim dividend for 16 month period to December 31. ✗Special dividend of 10p already declared. ‡Special dividend of 0.68p also declared. ★For 18 months. ♠For 15 months.*

COMMODITIES AND AGRICULTURE

Pig row stalls beef talks

By Tim Dickson in Brussels

THE SPANISH Agriculture Minister, Mr Carlos Romero, provided the main excitement of yesterday's European Community Farm Council when he stormed out of the meeting in protest at a remark from his Italian counterpart.

His abrupt departure is understood to have happened after a critical comment about Mr Romero's attempt to register a protest about African swine fever.

The miffed Mediterraneans caused the temporary suspension of yesterday's proceedings on the third day of a council which after the Spanish Minister's return last night was still struggling to resolve a number of key political issues.

Earlier, much of the time had been spent discussing the more minor items on the agenda – help for smaller cereal producers, the workings of the so-called extensification scheme for encouraging less intensive production methods, and the Commission's controversial proposal for an "incorporation premium" to encourage animal feed manufacturers to use more domestically grown cereals in their products.

Last night Mr Yannis Potakis, the Greek Agriculture Minister and chairman of the council, was expected to make a major effort to get agreement on the key proposals for reforming the beef sector.

The signs early yesterday were that member states had responded positively, if cautiously, to the Commission's new ideas for installing a new "safety net" to the intervention system, and for modifying the terms under which male animals would receive the newly increased special premium.

Another delicate issue was the level of next year's lamb and butter imports from New Zealand – the subject of a provisional deal struck between the European Commission and the Wellington Government.

Following surprisingly strong protests from France, Ireland and the southern states of the community, the chances of an agreement this week were starting to look slim.

King cattle rules in Botswana

Nicholas Woodsworth reports from a country where wealth is measured on the hoof

IT IS an adage that even the newest of businesses hands in southern Africa soon get to know: never try to make an appointment for a Friday afternoon in Gaborone.

The capital of Botswana may be a bustling commercial centre most of the week, and its inhabitants energetic businessmen, bankers, and government officials. But by Friday afternoon many of these same Gaboronians are already slipping away into the vast surrounding plains, where, until the following Monday morning, they live equally busy second lives as rural cattlemen.

Botswana today has the fastest-growing economy on the African continent. It earns 85 per cent of its export wealth from diamonds, nickel, and copper, and now ranks as the third largest diamond producer in the world. But long before diamonds were discovered following independence in 1966, it was a country where wealth was measured in cattle. And, to a large extent, it still is.

One study indicates that of all the candidates to the National Assembly in Botswana's third general election, 90 per cent were cattle owners, while half possessed large herds of 100 head or more. With three times as many cattle as people in the country, the animal remains a national obsession.

Botswana is not ideal cattle country. Two-thirds of its territory is covered by the Kalahari desert, and all of it is subject to periodic drought, which effectively precludes non-irrigated agriculture and makes cattle raising a risky business. Nonetheless, after mining, the cattle trade remains Botswana's biggest export earner.

The country is now emerging from a severe 7-year drought. During that time the national herd was reduced by a third from 3m to 2m head. Numbers have risen again to 2.3m, but it is estimated that pre-drought levels will not be restored for two more years.

For the Botswana Meat Commission, responsible for the country's beef exports, the rise of cattle mortality rates – up to 28 per cent in 1986 – has meant a drastic reduction in the number of animals processed in its abbatoir at Lobatse. In 1987 only 145,000 cattle were slaughtered in Botswana, compared with 239,000 in 1984.

For large-scale farmers who have managed to maintain their herds, however, cattle export remains a profitable business. Botswana, as a signatory to the Lomé Convention and a country that since 1980 has successfully controlled on foot-and-mouth disease, has access to EC markets, where beef prices are about double those on the world market. Botswana has the right to send 19,000 tonnes of beef anually with a 90 per cent levy abatement – a quota some competitors see as a disguised and unfair form of aid.

Because of the drought the meat commission has been able to provide only 70 per cent of its EC quota in recent years. Nevertheless, maintains Mr Lego Serema, its general marketing manager, Botswana beef, because of its lean, grass-fed qualities, remains highly popular with over 200 commercial buyers in Europe. The UK remains the biggest customer, accounting for 26 per cent of exports, while the EC overall takes 70 per cent.

Because the Botswana pula made large foreign exchange gains against European currencies last year (when more than $50m worth of Botswana beef was purchased by the EC), ranchers who sold cattle to the commission were given a 20 per cent bonus as well as a significant producer price increase, making the year a profitable one.

There have been growing accusations in recent years, however, that such profit has been created at the expense of the population at large and reserved to a small minority of large-scale cattle ranchers.

Cattle ownership, according to critics, is unequally distributed. Just 5 per cent of Botswana's 50,000 ranchers possess half the national herd, while 360 families own the bulk of the country's large-scale commercial operations. Almost half the population owns no cattle at all.

The industry is subsidised at considerable loss. Although it underwrites the cost of veterinary and vaccination services, emergency fodder, and costly disease cordon fencing, the Government fails to impose compensatory levels of taxation on ranchers.

Critics say cattle industry policies designed by politicians and government administrators use public money to fund the lucrative activities of a privileged minority of which they are part. The Government, however, insists that the advantages of job generation, given the country's lack of alternative employment, outweigh the costs.

One certain loser is the fragile environment, which is seriously threatened by overgrazing. The Government says that it is now encouraging quality rather than quantity, but that it can do little to legislate on herd numbers.

With herds coming back to full pre-drought levels and putting even more strain on the land, the Goverment's ability to see vested interest and environmental stability in correct proportions may have consequences for the industry's long term prospects.

Wheat crop record possible next year

By Bridget Bloom, Agriculture Correspondent

WHEAT OUTPUT could be substantially higher in 1989 than it has been this year, possibly even exceeding the record 537m tonnes harvest of 1986, the International Wheat Council believes.

In its latest market report the IWC stresses that this year's North American drought underlines the need for extreme caution in forecasting the level of wheat production next year.

But it believes that, given favourable weather throughout the northern hemisphere growing season, next year's output could rise to nearly 550m tonnes, compared with 500m tonnes this year. One major reason for the increase will be the reduction in the requirement for US set-aside of arable land, from 27.5 per cent to only 10 per cent of the wheat acreage next year.

A crop of 550m tonnes would just exceed world wheat consumption, currently projected at 545m tonnes compared with 540m tonnes this year. World trade could amount to 100m tonnes.

World carry-over stocks at the end of 1988-89 are forecast to fall by 37m tonnes to 98m tonnes. The close balance between production and consumption means stocks could either be marginally reduced or increased next year, the IWC says.

In a report on Feed Grains, published today, the Economist Intelligence Unit forecasts a slight decline in the volume of world trade in feed grains over the next five years from the present level of 84m tonnes.

One key element in the forecast is the belief that the Soviet will be able to do without feed grain imports by 1993. It imported 18m tonnes a year on average in 1979to 1981 and 12m tonnes a year in 1985 to 1987. The study argues that planned reforms will bring about more efficient use of grain and an increase in production so that in normal years imports will not be necessary.

Largely thanks to increased imports by China, developing countries imports of feedgrains are expected to account for 62 per cent of world trade in 1993, up from 45 per cent in 1985-6 and 29 per cent in 1979-81.

● The IWC is facing a sharp increase in rent when the lease on its West London headquarters expires at the end of next year. Delegates at this week's six-monthly council session are examining various options, including a move away from London.

FeedGrains to 1993: The Challenge of New Markets. EIU. London £130

CRA wins 15% iron ore price rise

By Chris Sherwell in Sydney

CRA, THE Australian mining group which is 49 per cent owned by RTZ of the UK, yesterday became the first of the major Australian iron ore producers to settle pricing terms for contracts to supply Japanese steel makers in the year beginning April 1989.

CRA's Perth-based subsidiary, Hamersley Iron, said it had negotiated an average 15 per cent price increase – the biggest for Australian iron ore since 1982. The price of lumps will rise 17.4 per cent, and of fines (crushed ore) by 13 per cent, both in US dollar terms.

The arrangement is subject to approval by the Australian Government and it is assumed that Canberra will await other settlements by Australian producers, like Mt Newman Mining (part of BHP) and Robe River (part of North Broken Hill), before pronouncing its view.

Volumes are also still to be settled, although Hamersley said yesterday its market share would be a minimum of 16 per cent. Last year it negotiated a 14 per cent share which, because of strong demand from Japan, will end up at 16 per cent. The new contracts therefore mean the company is consolidating its position.

With other negotiations still under way, Hamersley's competitors refused to comment on yesterday's announcement. Two years ago, when there were widespread allegations of an iron ore producers cartel, Hamersley suffered by being the last to settle terms, while last year it was accused of jumping the gun by settling first and accepting a price reduction.

Regarding its latest deal, Hamersley said the price rise was achieved in the face of strong competition from Brazil, India and other overseas ore suppliers and despite pressure from Japan for much lower price increases.

The company said the increase would mean that the recent strength of the Australian dollar against the US currency, in which iron ore contracts are denominated, would be more than offset. Australian iron ore export revenues were also certain to increase.

Overall, Australia remains the leading supplier of iron ore to the Japanese and other markets. Currently the iron ore-rich Pilbara region of Western Australia accounts for nearly ten per cent of world iron ore output, and supplies almost half of Japan's import requirements.

Talks continue on PNG gold projects

THE RECENT disruption at its Bougainville copper mine in Papua New Guinea has not deterred CRA from plans to proceed with two major gold projects in the country, Chris Sherwell writes.

The company is negotiating with the Port Moresby Government for:

● A special mining lease to mine gold-bearing colluvial material near Mount Kare, in the country's highlands. CRA first located the prospect in 1986, but it has since become the scene of a frantic gold rush by local inhabitants.

● A mining development agreement to mine the Hidden Valley gold deposit south of the town of Wau. Evaluation of the ore body was completed in August, three years after exploratory drilling began.

CRA's aims were disclosed in its latest internal gazette, published at the same time as one of its key executives was expressing deep concern to the Papua New Guinea Government over the arson attacks and explosions which were then sabotaging production at Bougainville Copper.

The company is known to have grown deeply anxious about the gold rush at Mount Kare, where for the past few months local people have been finding large nuggets among the muddy material which has slipped from the mountain into the nearby valley.

Located some 22kms from Porgera, one of Papua New Guinea's biggest gold finds, the valley's gold-bearing colluvial material is said to amount to 3m tonnes, with grades in the three to five grams per tonne range. CRA wants to mine this material on a small scale initially, and to use the results for later full-scale production at a rate of up to 1m tonnes per year.

The Hidden Valley find is smaller than Porgera, and described by CRA as a medium-tonnage, low-grade deposit which will produce 70 tonnes of gold and 700 tonnes of silver. The open-pit mine would take two years to build at a cost of around A$200m, and would operate for a ten-year period.

● Highlands Gold, a wholly-owned subsidiary of MIM Holdings, has signed a joint venture agreement with City Resources to earn a 51 per cent interest in a Papua New Guinea prospecting authority, Reuter reports from Brisbane.

MIM said Highlands, as operator, had begun initial gold exploration at the site on Basilaki Island in Milne Bay Province, at the eastern tip of the PNG mainland.

Earlier this week it announced Highlands Gold's acquisition of eight other prospecting authorities in PNG.

The subsidiary holds all MIM group assets in Papua New Guinea, including a one-third share in the Porgera gold project.

AIDS cobalt threat challenged

By Kenneth Gooding, Mining Correspondent

THE SPREAD of AIDS in Zaire and Zambia, the leading producers of cobalt, is "very unlikely to have any major impact on the world supply in the foreseeable future," according to Mr Euan Worthington, mining analyst at Warburg Securities, the London-based financial services group.

He says that there are no share investments significantly geared to the cobalt price and that the only way of making leveraged investments is through the physical metal or chemical powders.

But "we strongly advise against speculation in this market," Mr Worthington adds.

Warburg Securities is responding to inquiries it has received following the recent publication of a report on this page about the threat of AIDS to cobalt production.

This quoted the natural resources research group of Yorkton Securities, which suggested that the African copper belt mines were in terminal decline and that there might be a sharp price rise on the cobalt market in a few years time.

Warburg Securities points out, however, that land-based cobalt reserves are sufficient for at least 100 year's supply while seabed sources are immense, particularly on the floor of the Pacific Ocean where nodules contain about 0.25 per cent of cobalt – comparable with the average grade in Zairean-Zambian copper deposits.

Jamaican bauxite refinery to reopen

KAISER ALUMINUM and Chemical of the US has taken a controlling interest in Jamaica's largest bauxite refinery which has been closed for the past three years, and will reopen the plant in March, Canute James writes in Kingston.

The refinery, Alumina Partners of Jamaica, was jointly owned by Kaiser and Reynolds Metals, also of the US. Reynold's assets have been split by Kaiser and Hydro Aluminium of Norway.

There was no indication of how much the two companies had paid Reynolds for its assets.

The plant, which has a rated capacity of 1.2m tonnes a year, was closed in August, 1985, after Kaiser and Reynolds said there was a glut of alumina. The annoucement of a reopening follows protracted negotiations between the Jamaican Government and Kaiser.

Mr Steve Hutchcraft, president of Kaiser Aluminum, said the plant will produce nearly 1m tonnes of alumina per year. "Today the aluminium business is robust," he said.

Tin case appeal judgement reserved

By Raymond Hughes, Law Courts Correspondent

THE COURT of Appeal yesterday reserved judgment on an appeal by Malaysian Mining Corporation against a High Court ruling that it must pay £12.26m to Kleinwort Benson, the London merchant bank, under a loan agreement.

The case centred on "letters of comfort" given to the bank by the corporation in connection with a loan to its subsidiary, MMC Metals.

Last December Mr Justice Hirst held in the Commercial Court that in 1985 – after the tin market collapsed in the wake of the failure of the International Tin Council's price support operation – MMC had broken its contract with the bank when it had made it clear that it was no longer its policy to ensure that MMC Metals was "at all times in a position to meet its liabilities" under the loan arrangements.

On the appeal, MMC challenged that ruling and also contended that Mr Justice Hirst had been wrong to hold that the comfort letters constituted an undertaking by MMC that, so long as MMC Metals was under any liability to the bank, MMC 's policy was to ensure that its subsidiary was in a position to meet that liability.

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER and zinc prices rose sharply in morning trading on the LME following Tuesday's fall on news of the end of the Peruvian miners' strike. But both metals failed to maintain yesterday's highs, three-month copper closing £22 up at £1,664.50 and three-month zinc adding $29 to $1,511 a tonne. Analysts said Tuesday's shake-out appeared to have removed major long positions in copper, and yesterday's rally seemed to have re-established the bull trend. The sound funamentals were further reinforced by news that Codelco had estimated Chilean copper output for 1988 at 15,000 tonnes below recent predictions. Meanwhile coffee prices continued to advance on the back of strength in New York, which rallied in reaction to a report putting Brazil's 1989/90 crop at 20m to 25.9m bags, as against earlier estimates of 40m bags.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$12.60-2.75q	+0.18
Brent Blend	$14.99-5.05q	+0.17
W.T.I. (1 pm est)	$16.18-6.19q	+0.10
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$171-174	
Gas Oil	$148-149	+2
Heavy Fuel Oil	$69-71	
Naphtha	$134-136	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$420.5	
Silver (per troy oz)♣	617c	
Platinum (per troy oz)	$593.0	+2.25
Palladium (per troy oz)	$129.5	+1.0
Aluminium (free market)	$2535	+80
Copper (US Producer)	163⅝-66¼c	-4⅝
Lead (US Producer)	41¼c	
Nickel (free market)	710c	-10
Tin (European free market)	£4080	-12.5
Tin (Kuala Lumpur market)	19.78r	+0.05
Tin (New York)	344.0c	
Zinc (Euro. Prod. Price)	$1500	
Zinc (US Prime Western)	72½c	
Cattle (live weight)†	115.21p	+2.89*
Sheep (dead weight)†	185.47p	-9.44*
Pigs (live weight)†	81.46p	+0.28*
London daily sugar (raw)	$281.8z	-2.8
London daily sugar (white)	$299.2z	-2.8
Tate and Lyle export price	£270.0	-0.5
Barley (English feed)	£112.75q	-1.25
Maize (US No. 3 yellow)	£131	
Wheat (US Dark Northern)	£118.5v	+0.5
Rubber (spot)♥	55.75p	-1.00
Rubber (Jan)♥	62.50p	-1.00
Rubber (Feb) ♥	63.25p	-1.00
Rubber (KL RSS No 1 Jan)	292.5m	-4.0
Coconut oil (Philippines)§	$560z	-10
Palm Oil (Malaysian)§	$397.5	-2.5
Copra (Philippines)§	$380	-5
Soyabeans (US)	$180.5q	
Cotton "A" index	61.70c	-0.60
Wooltops (64s Super)	615p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Dec/Jan. w-Feb. v-Apr/May. u-Mar. q-Jan. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Dec	789	799	800 785
Mar	821	828	831 813
May	829	834	833 820
Jul	834	840	838 828
Sep	838	841	844 837
Dec	864	865	867 856
Mar	876	875	880 882

Turnover: 3084 (4020) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec 13: 1063.20 (1065.97):10 day average for Dec 14: 1097.45 (1104.45).

COFFEE £/tonne

	Close	Previous	High/Low
Jan	1123	1110	1123 1114
Mar	1129	1117	1130 1118
May	1120	1109	1120 1108
Jly	1121	1109	1120 1112
Sep	1125	1113	1119 1115
Nov	1120	1115	1120 1115

Turnover:2816 (3053) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec 13: Comp. daily 118.38 (118.98); . 15 day average 116.04 (115.79).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Mar	262.40	262.60	264.00 260.00
May	254.20	252.80	254.20 252.00
Aug	246.00	244.40	245.60 242.80
Oct	240.00	239.60	240.80 238.00
Dec	237.00	235.60	238.00
White	**Close**	**Previous**	**High/Low**
Mar	293.40	293.00	293.50 291.50
May	289.50	289.50	288.80 288.00
Aug	290.00		289.90 288.00

Turnover: Raw 3385 (3967) lots of 50 tonnes. White 1356 (1011).
Paris- White (FFr per tonne): Mar 1724, May 1709, Aug 1709, Oct 1658, Dec 1640, Mar 1640

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
2300	179	195	10	82
2400	103	141	34	127
2500	50	99	80	182
Copper (Grade A)	**Calls**		**Puts**	
3000	307	257	38	229
3200	173	176	103	344
3400	85	116	212	481

WOOL

ALL-ROUND rises in wool prices followed a low point in Australia just a week ago. The upturn occurred after prices had moved within about 5 cents of the floor level. The AWC indicator moved from 916 cents on December 6 to 949c on December 14. Prices elsewhere are also dearer, in South Africa, New Zealand and for British wool at this weeks Bradford sale. Currency rates are relevant as always. The political crisis in New Zealand especially enhances risks and opportunities there. So far there has been no more than moderate covering business at the lowest possible prices on the Bradford market. Top quotations are now up by 5 to 20 pence at 625 pence per kg. for 64s super, 450p for 58s super, and 395p for 50s carded.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 7,150 tonne
Cash	2515-25	2480-5	2540/2538	2530-5		
3 months	2435-8	2400-5	2452/2420	2445-7	2440-5	24,243 lots
Aluminium,99.5% purity (£ per tonne)						Ring turnover 5,700 tonne
Cash	1350-5	1325-35		1360-5		
Dec. 21	1330-5	1305-10		1340-2		6,205 lots
Copper, Grade A (£ per tonne)						Ring turnover 20,575 tonne
Cash	1885-90	1848-53	1923	1922-4		
3 months	1664-5	1642-3	1698/1660	1697-8	1674-5	70,239 lots
Silver (US cents/fine ounce)						Ring turnover 60,000 ozs
Cash	613-6	611-4	611	611-2		
3 months	628-9	625-8		624-6		471 lots
Lead (£ per tonne)						Ring turnover 12,400 tonne
Cash	402-3	396-8	409	408-8		
3 months	392-3	386-7	398/389	397-8	392-3	11,171 lots
Nickel ($ per tonne)						Ring turnover 842 tonne
Cash	15950-6000	15800-900	16250/15900	15850-900		
3 months	14650-700	14500-50	14700/14560	14600-50	14600-700	5,410 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 2,625 tonne
Cash	1580-5	1535-45	1580	1580-2		
3 months	1520-5	1495-500	1550	1545-50	1530-5	1,670 lots
Zinc ($ per tonne)						Ring turnover 20,825 tonne
Cash	1580-3	1540-5	1580/1579	1580-2		
3 months	1510-3	1480-5	1530	1527-30	1514-5	12,029 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	65.0	66.0	
Apr	91.0	93.5	93.0 90.5
May	105.8	109.3	107.5 105.0

Turnover 743 (375) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	161.00	160.00	161.00
Apr	163.00	162.00	163.00 162.00
Jun	153.00	152.00	153.00 152.00
Aug	147.50		148.00 147.50

Turnover 134 (56) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Dec	1532	1525	1533 1527
Jan	1548	1533	1560 1541
Apr	1586	1584	1599 1591
Jul	1385	1391	1387 1385
BFI	1522	1518	

Turnover 289 (244)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jan	110.55	110.35	110.55 109.85
Mar	114.10	114.05	114.10 113.70
May	117.30	117.20	117.30 116.70
Jun	118.70	118.60	118.70 118.35
Nov	105.25	104.85	105.25 105.00
Barley	**Close**	**Previous**	**High/Low**
Jan	107.50	107.45	107.50 107.45
Mar	111.00	110.85	111.00 110.60
May	113.00	112.90	113.00 112.80

Turnover: Wheat 172 (114) . Barley 62 (191) .
Turnover lots of 100 tonnes.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	420¼-420¾	229¼-229¾
Opening	419¾-420¼	230¼-230¾
Morning fix	419.60	230.678
Afternoon fix	420.00	229.008
Day's high	421½-422	
Day's low	418¼-418¾	

Coins	$ price	£ equivalent
Mapleleaf	433-438	236-241
Britannia	433-438	236-241
US Eagle	433-438	236-241
Angel	430½-435½	234½-237½
Krugerrand	420-423	229-231
New Sov.	99-100	54-54¾
Old Sov.	99-100	54-54¾
Noble Plat	595.30-605.15	326.75-332.15

Silver fix	p/fine oz	US cts equiv
Spot	337.20	613.50
3 months	347.85	627.45
6 months	359.00	641.90
12 months	380.30	671.05

CRUDE OIL $/barrel

	Close	Previous	High/Low
Feb	14.60	14.53	14.69 14.38
Mar	14.45	14.54	14.45 14.26
IPE Index	14.61	14.61	

Turnover: 4877 (1617)

GAS OIL $/tonne

	Close	Previous	High/Low
Jan	144.50	143.50	144.50 142.25
Feb	141.25	140.50	140.75 139.25
Mar	136.00	136.50	136.50 134.75
Apr	131.00	131.25	131.50 129.75
May	128.25	129.00	129.00 127.25
Jun	125.75	127.00	126.50 125.50
Jul	126.00	126.50	126.00 125.50

Turnover 5708 (4009) lots of 100 tonnes

US MARKETS

IN THE METALS, prices remained steady due mostly to weakness in the dollar, reports Drexel Burnham Lambert. Gold and silver futures were firm but low volume continues to exist. Copper and platinum prices posted the largest gains in moderate trading. The softs featured an active coffee market as prices rose over 450 points in the March contract. Massive speculative buying on news of lower Brazilian crop estimates helped the advance. Sugar and cocoa trading was featureless. In the grains, January soyabeans gained 12¾ as reports of large Soviet meal purchases fueled a rally in the soyacomplex. Maize futures also saw reports of Soviet export business. Low water levels in the Mississippi was also noted. Wheat trading was light with prices remaining almost unchanged. In the meats, pork belly and hog markets were slightly higher despite the overbought condition and a bearish out of town storage report. Firm cash hogs and better than expected packer demand was noted. Cattle futures also gained on mixed fundamentals. The energy markets were all higher as some trade groups entered the markets. Crude oil gained over 35 cents as prices rallied

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	421.5	419.6	422.0	418.8
Jan	423.5	421.9	0	0
Feb	425.7	424.1	426.5	422.8
Apr	431.3	429.7	432.0	428.5
Jun	437.0	435.3	437.8	434.0
Aug	442.9	441.7	440.8	440.8
Oct	448.8	446.8	0	0
Dec	454.4	452.8	455.5	453.0
Feb	425.7	424.1	426.6	422.8

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	604.5	590.0	605.0	598.0
Apr	599.5	587.0	599.5	585.5
Jul	596.5	586.0	598.0	586.0
Oct	596.5	587.0	595.0	590.0
Jan	598.0	588.5	0	0

SILVER 5,000 troy.oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	617.7	616.8	620.0	615.0
Jan	620.6	619.6	621.5	621.0
Feb	625.3	624.3	0	0
Mar	630.5	629.5	633.5	626.5
May	640.8	639.6	643.0	638.0
Jul	651.7	650.4	652.5	650.0
Sep	662.3	660.9	660.0	660.0
Dec	677.9	676.5	682.0	676.0
Jan	682.3	680.9	683.5	683.5
Mar	693.8	692.2	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	154.20	152.00	158.00	154.00
Jan	144.70	142.00	0	0
Feb	138.45	134.25	0	0
Mar	133.20	129.00	133.25	131.00
May	125.10	121.90	125.25	123.60
Jul	121.10	118.20	121.00	119.80
Sep	118.00	115.20	118.50	117.00
Dec	114.10	111.70	116.00	112.60

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	16.27	16.00	16.32	15.93
Feb	15.77	15.50	15.84	15.45
Mar	15.57	15.28	15.62	15.25
Apr	15.45	15.16	15.49	15.12
May	15.39	15.09	15.40	15.16
Jun	15.37	15.06	15.37	15.12
Jul	15.35	15.03	15.35	15.12
Aug	15.25	15.01	15.25	15.10
Oct	15.35	14.99	15.35	15.35

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jan	5100	4927	5120	4965
Feb	4995	4839	5015	4880
Mar	4745	4593	4755	4625
Apr	4470	4344	4475	4360
Jun	4230	4138	4230	4165
Jul	4205	4123	4205	4150
Aug	4220	4173	4220	4220

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1349	1360	1355	1349
Mar	1386	1378	1390	1371
May	1397	1392	1400	1387
Jul	1403	1402	1405	1399
Sep	1415	1412	0	0
Dec	1432	1425	1423	1415
Mar	1448	1440	1440	1438
May	1465	1457	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	135.00	130.50	135.00	132.00
Mar	133.42	128.82	133.60	130.00
May	131.04	126.40	131.25	128.00
Jul	129.11	124.57	129.50	126.40
Sep	126.30	123.51	126.30	125.00
Dec	124.80	122.50	124.50	124.50
Mar	123.50	120.26	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	9.26	8.60	9.50	9.50
Mar	11.60	11.64	11.69	11.49
May	11.20	11.17	11.26	11.09
Jul	10.93	10.86	11.00	10.80
Oct	10.61	10.62	10.65	10.50
Jan	9.60	9.54	9.60	9.60
Mar	10.34	10.35	10.40	10.40
May	10.20	10.14	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	57.80	57.55	58.15	57.25
May	57.95	57.93	58.45	57.40
Jul	58.00	58.00	58.60	57.60
Oct	57.16	57.37	57.50	57.00
Dec	56.95	57.17	57.50	56.50
Mar	56.75	56.75	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	166.20	167.30	166.70	165.20
Mar	164.15	164.80	164.50	163.10
May	164.90	165.00	165.00	164.25
Jul	165.50	165.00	166.50	164.00
Sep	164.95	164.50	164.10	163.50
Nov	163.90	163.85	162.95	162.95
Jan	158.75	158.90	0	0
Mar	158.75	158.90	0	0
May	158.75	158.90	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 13	Dec 12	mnth ago	yr ago
1905.3	1903.5	1868.7	1691.5

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	137.62	137.97	135.73	131.96
Futures	140.67	141.95	136.65	133.18

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	778/2	765/4	779/0	764/0
Mar	790/2	777/6	791/0	776/0
May	796/0	782/6	796/4	781/2
Jul	794/4	780/4	795/4	779/4
Aug	785/0	770/2	785/0	772/0
Sep	737/0	728/4	738/0	730/0
Nov	705/0	697/4	707/0	698/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	23.06	22.95	23.07	22.74
Jan	23.16	23.05	23.20	22.84
Mar	23.65	23.54	23.70	23.35
May	24.16	24.03	24.18	23.87
Jul	24.65	24.50	24.65	24.35
Aug	24.75	24.60	24.75	24.55
Sep	24.85	24.72	24.85	24.62
Oct	24.85	24.75	24.85	24.60

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	249.2	243.9	249.5	245.0
Jan	250.1	245.1	250.3	246.0
Mar	250.2	244.7	250.5	244.8
May	246.2	242.2	246.5	242.0
Jul	240.2	237.5	241.5	237.0
Aug	230.0	228.0	233.0	230.0
Sep	224.0	221.0	225.0	223.0
Oct	213.8	210.5	213.8	213.8

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	266/6	265/2	266/6	264/0
Mar	277/6	275/4	278/2	274/6
May	283/0	281/0	283/4	279/4
Jul	285/6	282/6	286/0	282/2
Sep	269/4	266/4	270/0	265/2
Dec	264/4	260/2	265/4	260/0
Mar	270/0	266/4	270/0	268/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	428/6	427/0	428/4	426/4
Mar	427/2	427/6	429/0	427/0
May	411/6	412/4	414/0	411/4
Jul	386/2	386/6	388/4	385/6
Sep	390/0	389/4	391/6	389/4
Dec	399/0	398/6	400/0	399/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	72.60	72.46	72.85	72.37
Feb	72.37	72.05	72.75	72.00
Apr	74.72	74.07	74.87	74.00
Jun	73.56	73.05	73.70	72.95
Aug	71.40	71.05	71.50	70.95
Sep	69.60	69.60	0	0
Oct	70.42	70.05	70.70	70.00

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	43.20	42.62	43.25	42.30
Feb	46.20	46.05	46.47	45.92
Apr	45.05	45.00	45.20	44.82
Jun	49.45	49.42	49.72	49.20
Jul	49.50	49.30	49.72	49.30
Aug	46.42	46.30	46.65	46.10
Oct	45.35	45.10	45.45	45.00

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	44.92	44.72	45.37	44.05
Mar	45.47	45.05	45.90	44.50
May	46.87	47.17	47.50	46.25
Jul	48.32	48.05	48.75	47.30
Aug	47.37	47.05	47.75	46.77
Feb	58.75	57.50	58.75	0
Mar	58.75	58.00	58.75	0

LONDON STOCK EXCHANGE

Oil shares lead equity sector higher

A CONFUSING performance by London equities left share prices firmer after a session in which the UK market often seemed to anticipate the response from New York to the US October trade deficit. The announcement from Washington of a $10.35bn (cif basis) monthly trade deficit (against an adjusted $10.67bn in September) was described as "perfectly acceptable" in London, but the UK export blue chips were restrained by a dip in the dollar and on Wall Street. Nervousness over inflationary pressures was sustained by the latest US data on industrial production and capacity.

The market was featured at the close by confirmation that RTZ is negotiating with BP with a view to the purchase of the oil group's minerals businesses; no figures were mentioned yesterday, but the market has already put a prospective price tag of several billion dollars on the deal. Other oil stocks also traded heavily yesterday.

While the slight narrowing in the US deficit eased some fears of an early rise in the Federal discount rate, the UK market remained uneasy ahead of today's meeting of the West German Bundesbank council. "Investors are concentrating on prospects for US and German interest rates, with London itself contributing little to this debate," commented Mr John Whitehead at Fleming Securities.

The London market opened firmly but soon turned down and was showing a loss of 10.9 FT-SE points, the day's low point, just ahead of the US trade figures announcement. A modest rally on the figures soon petered out but London then began to edge higher again despite a slow start on Wall Street. At its final reading, the FT-SE Index was 3.5 up at 1756.1, having moved into plus territory in late dealings when the BP-RTZ news prompted activity in oil stocks.

Seaq volume remained moderately high at 447.1m shares, compared with 473.9m in the previous session. However, analysts were adamant that there are no signs of aggressive buying of equities. The past 10 days have seen the equity market move within a narrow trading range of FT-SE 1740-1790. Inter-dealer activity has been high as traders seek to balance trading books ahead of the year-end while customer business remains unexciting.

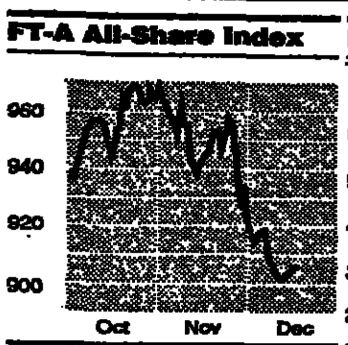
In the first half of the session, market indices were depressed by a handful of especially bearish moves among leading stocks. Coats Viyella tumbled as the board bore witness to the adverse trading effects of higher sterling and domestic interest rates.

Shares in Charter Consolidated fell heavily, taking Johnson Matthey with them, after hopes for an agreed bid for Charter were disappointed by the chief executive's assurance that no corporate moves are planned in the near future.

Account Dealing Dates		
*First Dealings:		
Nov 28	Dec 12	Dec 28
Option Declarations:		
Dec 8	Dec 22	Jan 12
Last Dealings:		
Dec 9	Dec 23	Jan 13
Account Day:		
Dec 19	Jan 9	Jan 23

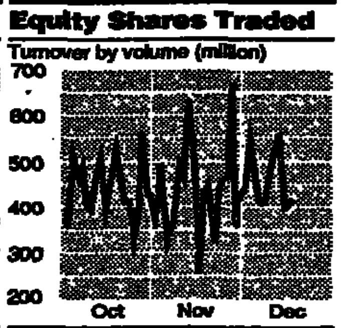
*New time dealings may take place from 9.00 am two business days earlier

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



BP/RTZ confirm talks

The oil and gas sector erupted in late trading on confirmation that RTZ, the mining group, is in discussions with BP with a view to buying the oil group's mineral division.

BP shares, a strong feature since hints of such a deal emerged, immediately moved higher, with most leading securities houses keenly bidding for stock. The old shares were finally 259p, up 6 on the day as turnover expanded to 8.2m. The new leapt 6 to 157½p on turnover of 13m.

RTZ, hit over the past few days by worries that a purchase of BP Minerals could involve a major capital raising exercise, possibly a rights issue, ended an active session showing a gain of 4 to 393p on turnover of 2.4m.

The brief announcement of negotiations gave no detail and market analysts were divided on the price that BP could obtain for its widespread mining interests. Some believe these could fetch between £1.5bn and £2.5bn, with the concensus favouring the lower figure.

Mr Nick Clayton at Shearson Lehman Hutton said the $3.5bn figure mooted in the UK press, "could well be on the shy side, perhaps up to $4.5bn could be closer". He observed that the deal, "would remove a valuable source and potential cushion to earnings. They are realising value now and taking advantage of copper prices." BP's move to sell the division was seen by Dr Homa Motamen at CIBC Securities as, "an extremely good strategic move by the company, because they can't issue equity or increase gearing".

LASMO denies sale

The excitement in the oil sector extended to LASMO and Enterprise as a buzz went round the market that news from LASMO's auction of its 25.2 per cent stake in the former was imminent. Late in the afternoon LASMO denied it had sold its stake.

Stories had suggested that the shareholding had been sold to America's Atlantic Richfield, but market hints as to the sale price varied widely between 500p and 700p. Analysts agreed that the sale of the stake would almost certainly go through after the expiry at the year-end of the Government's golden share. "At last it looks as if something is finally going on", observed one analyst.

Enterprise Oil shares were galvanised by the speculation surrounding the stake and leapt to close at the day's best of 516p, a net gain of 27. LASMO, meanwhile, raced up 15 to 463p, with dealers taking the view that a full-scale bid for the company could also be on the cards. British Gas launched an unsuccessful market raid on LASMO a couple of months ago, but netted only a minimal holding which it subsequently sold in the market.

Coats warning

Coats Viyella, Europe's largest textile group, shocked the market with a warning that profits for the current year may fall by 40 per cent to around £128m. The shares, which have performed badly this year, responded with a further fall of 10½ to 132p in expanded turnover of 7.4m.

Mr David Alliance, chief executive, said that higher interest rates and the strength of the pound have brought about a deterioration in trading conditions in the industry, notably a dramatic increase in textile imports, since Coats' interim figures were released three months ago.

Mr Alliance said new measures would include spending another £35m on restructuring and plant closures with a reduction of about 4,000 jobs by the end of the year – and taking £15m worth of non-recurring costs above the line.

Analysts warned that with the share price now trading near to its net asset value, the risk of a hostile takeover move was a real one.

The Coats Viyella profits warning turned the spotlight back to the troubled sector. Many stocks weakened to new low points for the year with Courtaulds closing 3 down at 242½p and Dawson International 6 lower at 189p. A timely recommendation from Kitcat & Aitken to "top slice" profits achieved during the recent speculative run brought Tootal back 3¼ to 110½p while more sizeable losses were sustained by Parkland "A", 155p, Robert H Lowe, 131p, and Lamont, 200p.

Shell were among the pacemakers in the oil leaders, with the shares heavily bought and finally 5 firmer at 341p after turnover of 6.4m. Ultramar, where there was speculation that BP might well be looking hard at the group after recent news of stakebuilding by two Canadian groups and French bank Banque Paribas, rose strongly late in the day and closed 4 up at 279p.

In the second line oils Premier edged up to 60p as a whisper that Aran Energy, which recently failed to agree terms of a merger with Carless, went round the market.

Exploration Company of Louisiana were a lone a notable weak spot in the sector, with the shares slumping 27 to 107p after talk of a disappointing progress report.

International stocks took small cheer from the US trade data, but rallied well in late trade as excitement in the Oil sector spilled across the wider market. ICI improved 10 more to 995p. Analysts at Kleinwort Benson Research rate the shares a trading buy up to the 210 level ahead of the full-year figures due on February 21st next year. They are forecasting £335m pre-tax for the fourth quarter, making a total of £1.485bn.

Glaxo drifted until a late run pulled the shares 4 higher to 1028p. Hoare Govett hosted a presentation on Tuesday by Glaxo Inc, the company's US subsidiary. Little new was announced, but the seminar confirmed a very positive outlook for the company which is said to have two potentially lucrative drugs in the pipeline for launch in 1992/1993.

Sutcliffe Speakman rose 9 to 125p ahead of figures due next Tuesday which are predicted to be excellent.

The Brewery sector failed to match the excitement generated elsewhere. Allied Lyons continued to drift on the Bond saga, falling 5 to 436p in thin turnover.

Among smaller concerns, HP Bulmer fell 10 to 142p after reporting figures which disappointed dealers and analysts. Several dealers expressed concern that there were sellers around before the results were announced - "Bad news travels fast," was one comment.

GEC continued to attract persistent and sizeable buying interest with stories of a possible bid for the group from Hanson or a European consortium still circulating in the market. The shares moved up 5 more to 189p on turnover of 8.5m. One dealer described the day's activity as "partly speculative, partly good solid institutional support".

STC, ahead of a broker's presentation, put on 2½ to 266p with turnover at a bigger than usual 3.6m. Racal Telecom were given a major boost by strong US buying of the ADR's and closed 3 higher at 164½p. Talk of imminent bid developments triggered heavy demand for George Scholes which gained 13 to 245p.

The FT-SE Index Steering Committee met yesterday and decided on three new constituents, effective December 31. They are: British Steel, Standard Chartered and Ultramar. Excluded from the same date will be Next and Williams Holdings. It is also expected that Abbey Life, having become a subsidiary of Lloyds Bank, will no longer be eligible for inclusion.

Ratners dropped 6 to 159p with dealers saying that the stock had "probably reached the bottom" – all the underwriting stock from the rights issue was cleared yesterday leaving the way open for a return to normal trading.

Iceland Frozen Foods fired another salvo in its battle to take over Bejam with Iceland chairman Mr Malcolm Walker saying that Bejam's reluctance to release its volume growth figures for the current year had prompted him to issue his own estimate – 5 per cent negative sales growth compared to the previous year. He said the fundamental difference between the two companies was "growth versus decline." Bejam and Iceland both lost a penny at 153p and 314p respectively.

An interesting day in the foods sector saw Cadbury Schweppes profits forecast for 1989 downgraded by BZW from £265m to £250m. Analysts were quick to point out that there were no problems with the company and said the "fundamentals" were going well – the news sent the shares down 5 to 318p in turnover of 3m.

News that the Laird Group is to dispose of its transport system division (Metro-Cammell) shaved 8 from the shares which finished at 207p. The division makes railway rolling stock, buses, coaches, and taxis, and in the last year contributed sales of £62m to the group. Laird says it has started talks with prospective purchasers.

Metals group Johnson Matthey was down 16 to 338p. The fall was in sympathy with a decline in Charter Consolidated shares of 24 to 465p provoked by the interim figures and restructuring proposals.

Yale & Valor fell 15 to 301p on news of the company's latest acquisition - £22m for the US cabinet manufacturer Miami-Carey.

A strong market in advance of yesterday's interim figures, commercial vehicle maker ERF reacted 32 to 433p, the 65 per cent increase in pre-tax profits having been discounted.

Cresta Holdings, the Isle of Man-based financial services, property, and advertising group, finished at 74½p, a rise of 8¼, after the acquisition of a Northern Ireland estate agency chain. In October, Cresta made an agreed £15m offer for Peregrine, a property company.

The announcement by Health Care Services that it has received approaches from several parties which might lead to an offer added 22 to the shares which finished at 83p.

Excellent results from Midsummer Leisure - profits more than doubled - encouraged sentiment and the shares rose 3 to 170p. One dealer commmented: "On a better day in the market the shares would have been up by 12-15p." Chrysalis rose 8 to 109p in a thin market.

Properties were easier in very thin trade. Land Securities fell 7 to 547p, while MEPC was 8 off at 520p. Mountleigh, down 9 at 164½, once again provided most interest with one dealer describing trade in the bid favourite as "very confused – nobody knows whats going on."

The departure of chief executive Mr R J Vallance upset International City Holdings and the shares slipped further after the chairman, at yesterday's annual meeting, re-stated his caution about prospects for the current year. The proposed exchange agreement with Yamane Tanshi, a leading Japanese money-broking house, failed to stem the fall which left the shares down 7 at 80p. Aitken Hume lost more ground to close 6 off at 43p, weighed down by the proposed rights issue and gloomy mid-term statement.

Polly Peck's preliminary statement contained few surprises. Profits matched market expectations for the 53-week period, with the electronics division recording the fastest growth. Mr Robert Sassoon, researcher at County NatWest WoodMac, believes the group can achieve earnings per share next year of 47p. "This discounts all the risks and, although a lot depends on future acquisitions, the shares still look cheap," says Mr Sassoon. They ended 6 higher at 273p.

Dealings in traded options were lifted to the modest level of 31,248 contracts by an exceptional, late rush of trading in BP, dealings in GEC and more heavy business in the index. The BP trades showed a shift of open interest from the January 220 to 260 calls, but was mainly notable for dealings of 2,000 contracts in the April 240 puts - on balance largely closing deals, open interest in the series falling some 1,000 contracts to about 6,000. There was also closing of interest in the April 220 puts, as overall transactions in the stock came to 719 calls and 2,630 puts.

■ Other market statistics, including the FT-Actuaries Share Index and London Traded Options, Page 25

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (12).
BREWERS (1) Vaux, ELECTRICALS (2) GEC, Hoskyns Grp., ENGINEERING (2) Thyssen, Wheasoe, INDUSTRIALS (3) Electrolux, Elkem, Nu-Swift, TRUSTS (3) Archimedes Inc., Korea Europe, M. & G. Dual Inc., THIRD MARKET (1) Kromagraphic.
NEW LOWS (170).
BRITISH FUNDS (52) INT.BANK & O'SEAS GOVT. STLG. ISSUES (1) Euro. Inv. Bk. 11pc '02, LOANS (1) Inv. in Ind. 8⅞pc Ln. '92-'97, CANADIANS (2) Granges Exp., Ntnl Business Systems, BANKS (2) Kleinwort Benson Grp., Union Discount, BREWERS (1) Bulmer (H.P.), BUILDINGS (6) AMEC 6.5p Cm. Cv. Pf., Berkeley Grp., Haywood Williams, McCarthy & Stone, Meyer Int., Polypipe, STORES (13) ELECTRICALS (12) ENGINEERING (2) Rotork, TACE, FOODS (5) ASDA, Acatos & Hutcheson, Hillsdown, Hunter Saphir, Norish, INDUSTRIALS (18) Alexander (W.), Avon Rubber, Baer Brand Wrmts., Bluebird Toys, British Vita, Bullers, Centreway Ind., Hartons, Havelock Europa, Kingsgrange, Kleen-E-Ze, Pentland, Seafield, Talbex, Tamaris, INSURANCE (2) Sun Life, Utd. Friendly 'B', LEISURE (2) Hi-Tec Sports, Woodington, MOTORS (4) March Grp., Spice, Cook (D.C.), Jessups, NEWSPAPERS (1) Utd. News., PAPERS (11) PROPERTY (9) BHH, City Gate Est. 3¼pc Cv. Pf., Ossory Est., Parkdale, Rockfort, Rosehaugh, Savills, Shield 5.84pc Net Cv. Cm. Pf., Sinclair Goldsmith, TEXTILES (8) Lamont, Munton, Readicut, TRUSTS (14) OILS (1) Floyd Energy, MINES (11) THIRD MARKET ( ).

FINANCIAL TIMES STOCK INDICES

	Dec. 14	Dec. 13	Dec. 12	Dec. 9	Dec. 8	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	86.18	86.65	86.79	86.77	86.97	87.65	91.43 (18/4)	86.18 (14/12)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.14	95.81	95.65	95.67	96.50	94.90	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1424.2	1425.7	1422.4	1429.4	1437.1	1348.9	1514.7 (8/8)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	170.4	173.2	174.6	176.8	176.7	320.4	312.5 (7/1)	162.7 (22/9)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	5.15	5.15	5.16	5.12	5.09	4.84				
Earning Yld %(full)	13.01	13.01	13.02	12.93	12.88	11.59				
P/E Ratio(Net)(*)	9.26	9.28	9.26	9.33	9.36	10.57				
SEAQ Bargains(5pm)	19,223	20,394	21,833	27,648	22,759	24,387				
Equity Turnover(£m)†	-	856.28	829.44	1106.75	1007.63	1101.78				
Equity Bargains†	-	21,171	23,569	28,295	24,040	25,648				
Shares Traded (ml)†	-	414.4	391.4	558.9	472.1	566.3				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1425.8	1423.1	1422.7	1417.9	1418.8	1418.4	1418.8	1419.0

DAY'S HIGH 1426.1 DAY'S LOW 1388.7

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35. Gold Mines 12/9/55, SE Activity 1974, ±Nil 9.23 †Excluding intra-market business.

● S.E. ACTIVITY

Indices	Dec. 13	Dec. 12
Gilt Edged Bargains	93.1	88.0
Equity Bargains	137.2	152.7
Equity Value	1730.7	1878.6
5-Day average		
Gilt Edged Bargains	91.7	94.5
Equity Bargains	153.8	153.8
Equity Value	1925.7	1897.5

● London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change
ASDA Group	[illegible]	[illegible]	[illegible]
Abbey Life	[illegible]	[illegible]	[illegible]
Allied-Lyons	[illegible]	[illegible]	[illegible]
Amstrad	[illegible]	[illegible]	[illegible]
Argyll Group	[illegible]	[illegible]	[illegible]
Ass. Brit. Foods	[illegible]	[illegible]	[illegible]
BAA	[illegible]	[illegible]	[illegible]
BAT	[illegible]	[illegible]	[illegible]
BET	[illegible]	[illegible]	[illegible]
BICC	[illegible]	[illegible]	[illegible]
BOC	[illegible]	[illegible]	[illegible]
BPB Inds.	[illegible]	[illegible]	[illegible]
BTR	[illegible]	[illegible]	[illegible]
Barclays	3,300	[illegible]	+5
Bass	513	765	
Beazer	785	164	-2
Beecham	1,800	466	+5
Blue Arrow	5,200	83½	
Blue Circle	730	419	+2
Boots	2,900	215	+1
British Airways	1,700	159	+1
Brit. Aerospace	313	434	
Brit & Comm	795	205	-4
British Gas	6,400	160	+½
British Land	471	329	-7
BP	8,300	259	+6
British Telecom	1,425	253	-½
Burmah Oil	365	471	-4
Burton	2,700	182½	-1½
Cable & Wireless	645	368	+4
Cadbury Schweppes	3,000	318	-5
Coats Viyella	7,900	133	-9½

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
Glaxo	782	[illegible]	
Globe Inv	962	137½	
Glynwed Int.	762	253	
Granada	1,200	312	-5
Grand Met.	531	432	-3½
GUS A	162	922	+7
GRE	98	177	
GKN	341	297	+1½
Guinness	484	328½	+½
Hammerson 'A'	19	877	-3
Hanson	3,043	149	-½
Harrisons & Cros.	18	650	-3
Hawker Siddeley	815	522	+8
Hillsdown Hldgs.	2,280	230½	-1½
IMI	940	175	-2
Imp. Chem.	1,700	995	+10
Inchcape	353	191	-1½
Jaguar	251	259	

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
Nat. West. Bank	[illegible]	[illegible]	[illegible]
Next	3,100	138½	+½
Northern Foods	90	282	+1
Pearson	51	628	-3
Pearl	149	378	-1
P & O	438	530	-4
Pilkington	446	196	+1½
Plessey	2,400	211	-2½
Prudential	548	148	+1
Racal	3,575	257½	-1½
Rank Org.	219	669	-1
RMC	151	477	+2
RHM	700	344	-4
Reckitt & Colman	118	985	-1
Redland	525	393	+4
Reed International	1,800	340	-2
Reuters 'B'	769	480	+3
RTZ	2,400	393	+4
Rolls Royce	1700	126½	

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]
Sun Alliance	391	949	+5
T&N	28	158	
TSB	986	105½	-½
Tarmac	1,200	218	+3½
Tate & Lyle	45	802	-2
Tesco	1,000	136	-1
THORN EMI	449	598	-9
Trafalgar House	1,500	290	-2
Trusthouse Forte	1,300	243	-4
Ultramar	1,800	279	+4
Unilever	639	442	-1
United Biscuits	1,400	267	-2
Utd. Newspapers	287	365	-4
Wellcome	747	401	
Whitbread 'A'	426	286	-3
Williams Hldgs.	1,400	215	-2
Wimpey	857	247	-4
Woolworth Hldgs.	1,900	224	-4

APPOINTMENTS

Four join NatWest board

■ NATIONAL WESTMINSTER BANK has appointed four directors to its main board from January 1. They are Mr John Melbourn, chief executive designate, corporate and institutional banking; Mr Bert Morris, chief executive designate, support services; Mr John Tugwell, chief executive designate, internatinal businesses; and Mr John Burns, general manager, group financial control and chief financial officer.

■ Mr Miles Morland of The First Boston Corporation has been elected chairman of the United Kingdom Association of New York Stock Exchange Members.

■ IBSTOCK JOHNSEN has appointed Mr Colin Hope as a non-executive director from January 1. He is group managing director of T&N.

■ JAMES FINLAY, a Glasgow merchant bank, has appointed Mr W.R. Christie as group development manager. He joins from the business development unit of the Royal Bank of Scotland.

■ Mr P.J. Scott Plummer, an investment director of Martin Currie, is joining the board of THE LIFE ASSOCIATION OF SCOTLAND.

■ LE CREUSET has appointed Mr Stephen Marfleet as managing director of its wholly-owned UK importer and distributor, The Kitchenware Merchants. He was managing director of Hilditch and Key.

■ BRADSTOCK GROUP has appointed Mr Victor I. Knope as a director of Bradstock, Blunt & Thompson, Lloyd's brokers; Mr George Pritchard as an associate director of Bradstock, Blunt (Northern), insurance brokers, Nottingham; and Miss Susan Christiansen as a director of Bradstock Blunt & Crawley, Lloyd's brokers.

■ BARTLETT INSURANCE BROKERS GROUP, Leeds, has promoted Mr Stephen Riddick, account manager, to director of Bartlett & Co.; Mr Mike Shaw from claims manager to director; Ms Cathi Wolfenden, account manager, to assistant director. Mr Terry Rees has been appointed an assistant director of Bartlett Credit Management.

■ HYMAN has appointed Mr Mike Gosbell as managing director of its foam division.

■ PEEK has appointed Mr Roy McGlone as group financial controller from January 1. He joins from Meggitt Holdings where he is controller of the controls and instrumentation division.

■ Mr Mervyn Blakeney, until recently a director of Cadbury Schweppes and managing director of Schweppes International, joins ELDRIDGE, POPE as a non-executive director from the end of February. He will chair the proposed audit committee.

NV PHILIPS has appointed Mr Constant A.M. Busch as managing director of Philips Electronic and Associated Industries from January 1. He is financial director and vice chairman, and will continue to be based in London.

■ WEIR WESTGARTH has appointed Mr Bill Stewart as sales and marketing director. He was with Weir Pumps.

■ Mr Richard Riggs has retired as managing director of Girdlestone Pumps, but remains chairman and managing director of GIRDLESTONE HOLDINGS, and chairman of the subsidiary companies. He is succeeded at Girdlestone Pumps by Mr Derek Hill.

ICI Fibres changes

■ ICI FIBRES has appointed Mr David Douglas as new business group manager from January 1. He is general manager of ICI Advanced Materials based in Japan. From the same date Mr Hans Pfaffli sales and marketing manager, technical products group, becomes business group manager for the technical products and carpets businesses. He will also have responsibility for UK subsidiary companies and the European sales administration. Mr Alan Pedder, managing director, will take direct responsibility for functions such as research, engineering, planning and personnel. Following operations director Mr Darryll McGee's appointment as ICI Chemicals and Polymers group quality manager, Mr John Coleman takes responsibility for fibre production, quality, and implementation of a major capital investment programme for ICI Fibres' factories.

■ We have been asked to point out that Mr Dick Gasmararian has been appointed managing director of MASE WESTPAC, and not of the parent company, Westpac Banking Corporation, as reported in yesterday's *Financial Times*.

FT UNIT TRUST INFORMATION SERVICE

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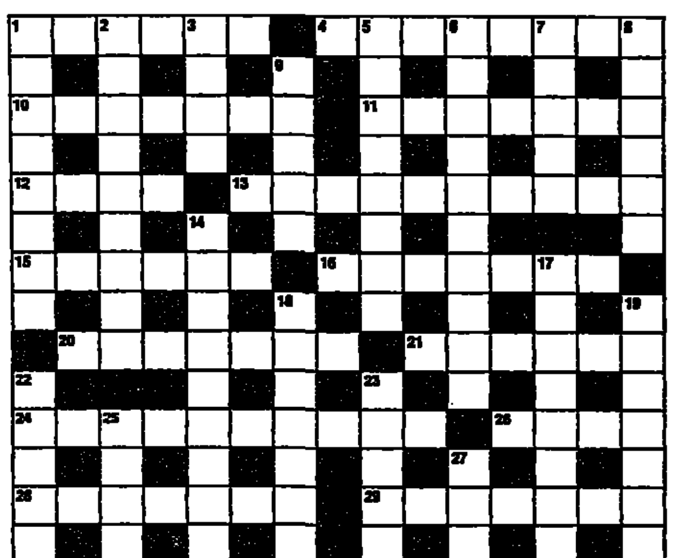
AUTHORISED UNIT TRUSTS

[illegible]

CROSSWORD

No.6,812 Set by VIXEN



ACROSS

1 Window fitting that's dear, having wood in it (6)
4 Take issue about American broadcaster (8)
10 Tease little dunderhead – such a bloomer (7)
11 Only temporary termini possibly (7)
12 Utterly exhausted fellow given one point (4)
13 Being accompanied by a beagle maybe that's well-trained (10)
15 Cast about and find the drink (6)
16 Assemble for prayer (7)
20 City outskirts drive where there's some greenery (7)
21 Property in which to invest – a tea-shop say (6)
24 People can enjoy such discord (10)
26 Hot time for one of the immortals (4)
28 Hand over evidence after study (7)
29 Card game – a variety of bridge (7)
30 Greens, i.e. fresh produce to give vitality (8)
31 Add a couple of pages and then stop (6)

DOWN

1 To walk around is bliss! (8)
2 Fanciful lady with green make-up (9)
3 Always putting a girl right (4)
5 The first person with German roll-up copier (8)
6 Steers left by accident unrestrained (10)
7 Clean though rough growth (5)
8 Stranger calling for a large glass (6)
9 Plans a bit of modernisation inside a small house (5)
14 Talking to a great number – the sauce! (10)
17 The guy one has little hesitation in making an attendant (9)
18 A way sound reform causes bewilderment (8)
19 Kept in custody, a Greek character inside had food served (8)
22 Very cold? It depends! (6)
23 Accept there's some difficulty over exercise (5)
25 A beast of a light-weight (5)
27 Kitchen equipment set up for a photograph (4)

Solution to Puzzle No.6,811

```
SCRIMP SENTON
C E A  B I I
SUPPORT CORTEGE
L R E P N A H
BLOOMSBURY NOTE
O T N  I M
SOFIA CHINAMAN
E  I H L  R
BASTILLE LISLE
B I  O I E
ARUM DONTBOTHER
E E O S E T L
BELLOWS TROLLOP
Z A S  A E P
EAGLES PLEDGE
```

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by one purchaser. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set, unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

هكذا من الأصل

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TSB Unit Trusts (y) (1000)F
Charlton Pl, Andover, Hants, SP10 1RE 0264 63434

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	94.35	95.09	101.16	+0.31	2.10
Do Accum	6	101.26	102.06	108.57	+0.38	2.10
TSB Brit Growth	6	51.76	51.76	55.06	-0.09	3.49
Do Accum	6	54.16	54.16	57.62	-0.08	3.49
TSB European	6	51.75	52.75	55.05	+0.12	1.06
Do Accum	6	53.16	53.16	56.55	+0.14	1.06
TSB Extra Income	6	140.90	144.31	153.52	+0.26	6.16
Do Accum	6	181.87	186.28	198.17	+0.38	6.16
TSB Smaller Cos	6	48.71	50.77	54.01	-0.01	1.54
Do Accum	6	49.57	51.67	54.97	-0.02	1.54
TSB General	6	169.96	169.96	180.81	-0.26	3.72
Do Accum	6	294.20	294.20	312.98	-0.46	3.72
TSB Premier Income	5	46.42	47.06	49.02	-0.34	9.36
Do Accum	5	71.56	72.34	75.25	-0.50	9.36
TSB Income	6	251.31	255.37	271.59	-0.86	5.24
Do Accum	6	427.49	434.27	461.99	-1.58	5.24
TSB Pacific	6	210.25	213.48	227.11	+1.78	0.31
Do Accum	6	218.60	221.95	236.12	+1.85	0.31
TSB International	6	318.44	318.44	338.77	+1.72	0.88
Do Accum	6	402.37	402.37	428.05	+2.15	0.88
TSB Nat Resources	6	56.86	58.17	61.88	-0.49	2.74
Do Accum	6	60.27	61.65	65.59	-0.40	2.74
TSB Scted Opps	6	73.94	73.94	78.66	+0.01	2.91
Do Accum	6	84.42	84.42	89.81	+0.01	2.91

Target Trust Mngrs Ltd (1600)H
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 01-379 0860

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	5	59.77	59.77	63.88	(z)	3.27
Australia	5	6.631	6.631	7.092	(z)	0.10
Commodity	5	71.87	71.87	77.52	(z)	0.64
Convertible	5	136.1	136.1	146.8	(z)	5.21
Equity	5	141.9	141.9	153.0	(z)	3.41
Euro Spec Sits	5	81.47	81.47	87.53	(z)	1.56
Financial	5	29.00	29.00	31.30	(z)	2.15
Global Opps Inc	5	53.28	53.28	57.46	(z)	0.65
Global Opps Acc	5	53.68	53.68	57.89	(z)	0.65
Gold Income	5	43.34	43.34	46.55	(z)	0.00
Gold Acc	5	79.83	79.83	85.74	(z)	0.00
Income	5	98.73	98.23	105.9	(z)	4.79
Japan	5	126.8	126.8	136.6	(z)	0.00
Pacific Inc	5	113.6	113.6	122.6	(z)	0.06
Pacific Acc	5	140.9	140.9	152.1	(z)	0.06
Preference Share	5	24.11	24.52	26.25	(z)	7.48
Special Sits	5	85.08	85.08	92.00	(z)	1.70
UK Capital	5	82.71	82.71	89.80	(z)	1.74
World Income	5	50.96	50.96	54.73	(z)	3.02
Worldwide Capital	5	145.9	145.9	157.3	(z)	1.96

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Amer Exmt Dec 14	37.3	38.7	+0.0	2.45
Euro Exmt Dec 14	41.8	43.8	+0.0	2.2
Fixed Int Ex Dec 14	47.7	50.0	+0.0	10.3
Japan Exmt Dec 14	56.5	58.8	+0.0	0.42
Managed Ex Dec 15	37.2	38.6	+0.3	5.15
SE Asia Exmt Dec 14	35.1	36.8	+0.0	3.21
Sm Cos Exmt Dec 14	39.9	41.9	+0.0	3.03
UK Eqty Ex Dec 14	33.4	35.0	+0.0	4.87

New Court Property Fund Managers

	Bid Price	Offer Price	+ or -	Yield Gross
NC Property	191.5	209.3	—	—

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
PDFM Small Co's Nov 6	774.0	820.0	—	4.20
Do Accum	799.0	846.0	—	4.20
PDFM Int Exmt Dec 8	121.1	123.4	—	2.09

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Exempt	96.10	97.33	—	2.09

INSURANCES

AA Friendly Society
Government Mngt M & G Inv Mngt Ltd.

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Sy Dec 9	—	139.4	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

	Bid Price	Offer Price	+ or -	Yield Gross
Prop. Ser. 1	261.4	275.2	—	—
Equity Ser. 1	107.6	113.3	-0.3	—
Prop. Acc. Ser 2	390.4	411.0	—	—
Equity Ser 2	122.1	128.6	-0.3	—
Selective Acc.	289.9	305.2	-0.6	—
Prop. Ser. 4	313.0	329.5	—	—
Equity Ser. 4	128.4	135.2	-0.2	—
Fixed Int. Ser. 4	213.6	224.9	-1.5	—
Indexed Inv. Ser. 4	128.9	135.7	-0.8	—
American Ser. 4	248.1	261.2	+0.2	—
High Inc. Ser. 4	371.2	390.8	-0.4	—
Japan Ser 4	283.0	297.9	+2.2	—
Man. Ser. 4	371.5	391.1	-0.6	—
Money Ser. 4	221.9	233.6	—	—
European Ser 4	95.3	100.4	-0.3	—

Continued on next page

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MANAGEMENT SERVICES

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UK LISTED

IoM AUTHORISED

FT UNIT TRUST INFORMATION SERVICE

OFFSHORE INSURANCES

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

1988 High	1988 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
102[illegible]	99[illegible]	Treas 11½pc 1989	99[illegible]	.....	11.54	9.06
101[illegible]	98[illegible]	Treas 9½pc Cnv 1989	98[illegible]	+	9.60	12.70
97[illegible]	95[illegible]	Treas 3pc 1989	97[illegible]	.....	3.09	10.57
102[illegible]	98[illegible]	Treas 10½pc 1989	99[illegible]	+	10.60	12.60
102	93[illegible]	Exch 10pc 1989	98[illegible]	+	10.16	12.61
103[illegible]	98[illegible]	Exch 11pc 1989	98[illegible]	.....	11.11	12.27
97[illegible]	94[illegible]	Treas 5pc 1986-89	95[illegible]	–	5.24	10.78
104[illegible]	98[illegible]	Exch 10¼pcCv '89	98[illegible]	+	10.39	11.52
107½	101¼	Treas 13pc 1990‡‡	101[illegible]	+	12.82	11.62
104[illegible]	99[illegible]	Exch 11pc 1990‡‡	99[illegible]	+	11.07	11.51
107[illegible]	100[illegible]	Exch. 12½pc 1990	101	+	10.37	11.58
93[illegible]	90[illegible]	Treas. 3pc 1990	91[illegible]	.....	3.29	9.98
99[illegible]	95[illegible]	Treas 8¼pc 1987-90‡‡	95[illegible]	–	8.64	11.66
102[illegible]	95[illegible]	Treas. 8pc Cv 1990 ‡‡	95[illegible]	–	8.37	11.17
103[illegible]	97[illegible]	Treas. 10pcCv 1990	97[illegible]	–	10.26	11.51
91[illegible]	87[illegible]	Exch 2½pc 1990	87[illegible]	.....	2.86	9.72
107[illegible]	100[illegible]	Treas 11¾pc 1991	100[illegible]	–	11.69	11.51
95[illegible]	89[illegible]	Funding 5¾pc '87-91‡‡	89[illegible]	–	6.41	10.94
90[illegible]	86	Treas. 3pc 1991	86	.....	3.45	9.65
105[illegible]	97[illegible]	Treas 10pc Cv '91 ‡‡	98	–	10.18	10.85
107[illegible]	98[illegible]	Exch. 11pc 1991	99[illegible]	–	11.09	11.34
98[illegible]	91[illegible]	Treas. 8pc 1991	91[illegible]	–	8.71	11.27
113[illegible]	103[illegible]	Treas 12¾pc 1992‡‡	103[illegible]	–	12.25	11.27
104[illegible]	96[illegible]	Treas 10pc 1992	96[illegible]	–	10.31	11.13
98[illegible]	91[illegible]	Treas. 8pc 1992 ‡‡	91[illegible]	–	8.75	11.12
106[illegible]	98[illegible]	Treas 10½pc Cv 1992‡‡	98[illegible]	–	10.66	11.05
86[illegible]	81[illegible]	Treas. 3pc 1992	81[illegible]	–	3.65	9.09
112[illegible]	102[illegible]	Exch. 12¼pc '92	102[illegible]	–	11.85	11.07
117[illegible]	106[illegible]	Exch 13½pc 1992	107[illegible]	–	12.59	11.08
97[illegible]	91	Treas 8¼pc 1993	91[illegible]	–	9.04	10.90
105[illegible]	96[illegible]	Treas 10pc 1993‡‡	97[illegible]	–	10.29	10.82
115[illegible]	105[illegible]	Treas 12½pc 1993‡‡	105[illegible]	–	11.85	10.95
93[illegible]	85[illegible]	Funding 6pc 1993‡‡	85[illegible]	–	7.00	9.82
121[illegible]	110[illegible]	Treas 13¾pc 1993‡‡	110½	–	12.46	10.96
		Five to Fifteen Years				
		Over Fifteen Years				

BRITISH FUNDS—Contd

Undated

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

Public Board and Ind.

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

UNIT TRUST NOTES

[illegible]

LONDON SHARE SERVICE

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AMERICANS – Contd

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
19	14⅞	USX $1	15¼	+⅛	$1.40	–	4.9
140p	44p	♦Unilab	127p		–	–	4.9
26⅛	17⅝	Utd. Technologies	22¼	+⅛	$1.60	–	4.0
163p	27p	♦Utilitech Inc.	133p		–	–	–
34⅝	26¼	US West	32¼	–⅛	$3.52	–	6.0
24⅞	16⅞	Waste Management $1	22¼	+⅛	48c	–	1.2
16⅞	12⅞	Whirlpool $1	13¼	–⅛	$1.10	–	4.6
21⅛	16¼	Whitman Corp.	17⅛xd		96c	–	3.0
33⅞	18¼	♦Woolworth $3½	27⅞		$1.64	–	3.3

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

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LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- c Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for *dividends or ranking only for restricted dividend.*
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ǁ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88 L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987 P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations. xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	67	.....
Craig & Rose £1 ... γ	710	.....
Finlay Pkg. 5p ... γ	86	+1
Holt (Jos) 25p ... γ	£11 11/16	−1/16

IRISH

Cap. 8½% Ln. 1991	£99⅝	.....
9pc Cap Ln. 1996	£103⅛	.....
Fin. 13% 97/02	£124⅜	.....
Arnotts ... γ	380	+5
Carroll (P J) ... γ	145	.....
Grafton Grp. ... γ	143	.....
Hall (R. & H.)	153	.....
Helton Hldgs. ... γ	57	−2
Irish Ropes ... γ	165	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	48

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Rates and trade data hit dollar

RISING EUROPEAN interest rates, and signs that an improving trend in the US trade deficit has stalled, hit the dollar yesterday.

Central banks in Belgium and the Netherlands pushed interest rates higher, and indications from the Bundesbank's operations yesterday did nothing to dispel speculation that today's central bank council meeting will result in a rise in the West German Lombard rate.

This move towards higher rates may have been shrugged off by the dollar if the US trade news had been encouraging, but this was not the case. The October trade deficit of $10.35bn was not particularly bad. It was within the range of market forecasts, and was below the upward revision to $10.67bn in the September shortfall, but it did not match the more optimistic estimates of around $9bn.

The news on exports was of particular concern, falling by 1.1 p.c., while other figures showed that capacity utilization rose a disappointing 0.2 p.c. in November. This led to fears that US factories are producing near the limit of their capacity, and may not be able to deliver more exports without putting upward pressure on inflation.

In general the New York market appeared to be long of dollars, ahead of the trade figures, and dealers were forced to sell because the US currency was unable to sustain prevailing levels.

This trend then started to feed on itself, against a background of uncertainty about whether the US Federal Reserve will follow the upward move in European interest rates.

The dollar fell to DM1.7370 from DM1.7475; to Y122.70 from Y123.10; to SFr1.4650 from SFr1.4705; and to FFr5.94 from FFr5.97.

According to the Bank of England, the dollar's exchange rate index fell to 92.9 from 93.3.

Sterling traded nervously, falling at one time below a technical support point of DM3.18. Figures on UK industrial production had little impact, as the market concentrated on rising world interest rates, and sterling's shrinking differential advantage.

The pound touched a low of DM3.17, but recovered in late London trading to close at DM3.18, compared with DM3.1950 on Tuesday. Sterling also fell to Y224.50 from Y225.00; to SFr2.68 from SFr2.6875; and to FFr10.87 from FFr10.9125.

Against the weaker dollar, sterling rose 20 points to $1.8300. The pound's exchange rate index, on Bank of England figures, fell 0.1 to 77.7.

The New Zealand dollar was volatile, on the continuing economic row within the Government.

News that Mr Roger Douglas, New Zealand Finance Minister, had been sacked, drove the local currency down to a low of 60.05 US cents. This followed a report that Mr Douglas had refused to serve beyond early 1989 in a government led by Mr David Lange, the Prime Minister.

Mr Trevor de Cleene, the Revenue Minister, then resigned, but the New Zealand dollar had already seen its worst levels of the day, and recovered, to close in London at 62.15 US cents, compared with 63.95 on Tuesday.

£ IN NEW YORK

Dec.14	Latest	Previous Close
£ Spot	1.8295-1.8300	1.8195-1.8205
1 month	0.51-0.50pm	0.57-0.55pm
3 months	1.58-1.56pm	1.68-1.64pm
12 months	5.58-5.45pm	5.72-5.62pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.14	Previous
8.30 am	77.6	78.0
9.00 am	77.6	77.8
10.00 am	77.6	77.8
11.00 am	77.5	77.8
Noon	77.5	77.8
1.00 pm	77.5	77.8
2.00 pm	77.5	77.8
3.00 pm	77.8	77.8
4.00 pm	77.7	77.8

CURRENCY RATES

Dec.14	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.742918	0.652562
U.S Dollar	6.50	1.36006	1.18779
Canadian $	8.75	1.63139	1.42749
Austrian Sch.	4	16.6811	14.6304
Belgian Franc	7.5	49.7102	43.5326
Danish Krone	7½	9.15320	8.02176
Deutsche Mark	3½	2.37126	2.07555
Neth.Guilder	4	2.67728	2.34268
French Franc	9½	8.10732	7.09587
Italian Lira	12½	1748.22	1529.58
Japanese Yen	2½	167.355	146.395
Norway Krone	8	8.80299	7.71412
Spanish Peseta	-	153.998	135.052
Swedish Krona	8½	8.22564	7.20099
Swiss Franc	3	1.99589	1.74582
Greek Drach.	20½	197.426	172.776
Irish Punt	-	N/A	0.776031

*All SDR rates are for Dec.13

CURRENCY MOVEMENTS

Dec.14	Bank of England Index	Morgan** Guaranty Changes %
Sterling	77.7	-14.6
U.S Dollar	92.9	-14.0
Canadian Dollar	83.8	-2.3
Austrian Schilling	136.4	+10.0
Belgian Franc	99.0	-5.7
Danish Krone	90.8	-0.0
Deutsche Mark	146.3	+21.6
Swiss Franc	168.6	+20.2
Guilder	134.5	+13.7
French Franc	69.4	-15.3
Lira	45.9	-19.8
Yen	252.7	+87.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100)**Rates are for Dec.13 .

OTHER CURRENCIES

Dec.14	£	$
Argentina	28.4795-28.6415	15.5600-15.6400
Australia	2.1445-2.1465	1.1700-1.1710
Brazil	1190.80-1197.45	650.60-653.85
Finland	7.4945-7.5170	4.0980-4.1000
Greece	263.00-267.50	144.40-147.10
Hong Kong	14.3140-14.3275	7.8070-7.8090
Iran	124.20*	67.10*
Korea(Sth)	1242.55-1252.55	682.10-687.70
Kuwait	0.51330-0.51340	0.28050-0.28095
Luxembourg	66.55-66.65	36.35-36.45
Malaysia	4.9220-4.9340	2.6850-2.6880
Mexico	4174.20-4185.65	2280.00-2285.00
N. Zealand	2.9470-2.9545	1.6075-1.6115
Saudi Ar.	6.8700-6.8810	3.7515-3.7525
Singapore	3.5460-3.5535	1.9360-1.9390
S. Af (Cm)	4.3025-4.3235	2.3530-2.3560
S. Af (Fn)	6.8525-6.9830	3.7385-3.8095
Taiwan	51.10-51.35	28.10-28.20
U.A.E.	6.7255-6.7340	3.6725-3.6735

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.14	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5326	+2.53	+0.84	±1.5344
Danish Krone	7.85212	8.02176	+2.16	+0.47	±1.5404
German D-Mark	2.05853	2.07555	+0.83	-0.86	±1.0981
French Franc	6.90403	7.09587	+2.78	+1.09	±1.3674
Dutch Guilder	2.31943	2.34368	+1.05	-0.64	±1.5012
Irish Punt	0.768411	0.776031	+0.99	-0.70	±1.6684
Italian Lira	1483.58	1529.58	+3.10	+2.11	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8135-1.8405	1.8295-1.8305	0.52-0.49cpm	3.31	1.60-1.55pm	3.44
Canada	2.1810-2.2000	2.1990-2.2000	0.45-0.35cpm	2.18	1.07-0.93pm	1.82
Netherlands	3.57¾-3.60	3.58½-3.59½	2¼-2⅛cpm	7.31	6⅞-6⅝pm	6.96
Belgium	66.50-67.25	66.55-66.65	36-31cpm	6.04	98-88pm	5.59
Denmark	12.26½-12.31¼	12.26½-12.27½	5⅛-5orepm	4.95	15½-14½pm	4.89
Ireland	1.1860-1.1936	1.1875-1.1885	0.62-0.52ppm	5.76	1.57-1.47pm	5.12
W. Germany	3.17-3.19	3.17¾-3.18¾	2-1⅞pfpm	7.31	5¾-5½pm	7.08
Portugal	262.55-265.65	263.95-264.95	5pm-39cdis	-0.77	21-120dis	-1.07
Spain	206.40-207.60	206.55-206.85	47-30cpm	2.24	70-53pm	1.19
Italy	2338¾-2351¼	2350¼-2351¼	par-2liredis	-0.51	4-1pm	0.43
Norway	11.79¾-11.85¾	11.82½-11.83½	1⅝-1⅛orepm	1.46	3⅞-3¼pm	1.20
France	10.84½-10.90¼	10.86½-10.87½	4½-4¼cpm	4.83	12⅛-11¼pm	4.39
Sweden	11.01½-11.06	11.02½-11.03½	3-2⅝orepm	3.06	7¾-6¼pm	2.54
Japan	223¾-225	224-225	1¾-1⅝ypm	9.02	4⅝-4½pm	8.24
Austria	22.33-22.46	22.35-22.38	15-14gropm	5.10	42¼-39⅝pm	7.31
Switzerland	2.67-2.68½	2.67½-2.68½	1¾-1⅝cpm	7.56	5¼-5pm	7.56

Belgian rate is convertible francs. Financial franc 67.10-67.20 . Six-month forward dollar 3.16-3.11cpm 12 months 5.50-5.40cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8135-1.8405	1.8295-1.8305	0.52-0.49cpm	3.31	1.60-1.55pm	3.44
Ireland†	1.5290-1.5415	1.5385-1.5395	0.25-0.30cdis	-2.14	0.55-0.65dis	-1.56
Canada	1.1900-1.2100	1.2000-1.2010	0.10-0.13cdis	-1.15	0.47-0.51dis	-1.63
Netherlands	1.9560-1.9785	1.9610-1.9620	0.69-0.66cpm	4.14	1.75-1.71pm	3.54
Belgium	36.35-36.70	36.35-36.45	9.30-7.30cpm	2.74	21.50-17.50pm	2.14
Denmark	6.70-6.75¾	6.70¼-6.70¾	1.25-0.85orepm	1.88	2.75-2.00pm	1.42
W. Germany	1.7300-1.7500	1.7365-1.7375	0.60-0.57pfpm	4.05	1.62-1.58pm	3.69
Portugal	144-145	144¼-145	40-60cdis	-4.15	140-190dis	-4.57
Spain	112.70-113.70	112.75-112.85	9-19cdis	-1.49	57-67dis	-2.19
Italy	1278-1288	1284¼-1284¾	3.50-4.00liredis	-3.52	8.50-9.50dis	-2.82
Norway	6.45¾-6.50	6.46¼-6.46¾	0.85-1.05oredis	-1.76	3.45-3.85dis	-2.25
France	5.92-5.98	5.93¾-5.94¼	0.73-0.66cpm	1.40	1.50-1.35pm	0.96
Sweden	6.02¾-6.07	6.02½-6.03	0.05-0.25oredis	-0.30	1.20-1.50dis	-0.89
Japan	122.10-123.95	122.65-122.75	0.57-0.54ypm	5.43	1.50-1.47pm	4.84
Austria	12.20-12.30½	12.20¾-12.21¼	4.80-4.40gropm	4.49	12.75-11.25pm	3.90
Switzerland	1.4590-1.4795	1.4645-1.4655	0.54-0.51cpm	4.30	1.54-1.49pm	4.14

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 36.65-36.75.

EURO-CURRENCY INTEREST RATES

Dec.14	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅝-12½	12¾-12½	13-12⅞	13¼-13⅛	13⅜-13¼	13⅛-13
US Dollar	8⅝-8½	8⅞-8¾	9⅝-9½	9½-9⅜	9⅝-9½	9⅞-9¾
Can. Dollar	10-9¾	10¼-10	10⅜-10⅛	11⅛-10⅞	11⅛-10⅞	11⅛-10⅞
D. Guilder	5⅝-5⅜	5⅝-5⅜	5¾-5⅝	5⅞-5¾	5⅞-5¾	5⅝-5½
Sw. Franc	4¾-4½	5-4¾	5⅝-5½	5⅝-5½	5⅛-4⅞	5-4⅞
Deutschmark	5-4⅞	5⅝-5½	5¾-5⅝	5¾-5⅝	5¾-5⅝	5¾-5⅝
Fr. Franc	8-7¾	8-7¾	8⅞-8⅝	8⅞-8⅝	8¾-8⅝	8⅞-8¾
Italian Lire	14-12	16-14	14-13½	13¼-12⅞	12⅞-12⅝	12⅞-12⅝
B. Fr. (Fin)	6⅞-6½	7¼-7⅛	7⅞-7⅝	7½-7⅜	7⅞-7⅝	7⅞-7⅝
B. Fr. (Con.)	6¾-6½	7¼-6⅞	7⅞-7⅝	7⅞-7⅝	7⅞-7⅝	7⅞-7⅝
Yen	4⅜-4⅛	4⅜-4⅛	4⅜-4¼	4⅜-4¼	4⅝-4½	4⅝-4½
D. Krone	7⅞-7⅝	8-7¾	8-7¾	8-7¾	8¼-7⅞	8¾-8½
Asian $Sing	8½-8⅜	8⅝-8½	8⅞-8¾	9½-9⅜	9½-9⅜	9⅞-9¾

Long term Eurodollars: two years 9¾-9½ per cent; three years 9¾-9½ per cent; four years 9⅞-9¾ per cent; five years 9⅞-9¾ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.14	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.830	3.180	224.5	10.87	2.680	3.59	2352	2.200	66.60
$	0.546	1	1.738	122.7	5.940	1.464	1.962	1285	1.202	36.39
DM	0.314	0.575	1	70.60	3.418	0.843	1.129	739.3	0.692	20.94
YEN	4.454	8.151	14.16	1000.	48.42	11.94	15.99	10472	9.800	296.7
F Fr.	0.920	1.684	2.925	206.5	10.	2.466	3.303	2163	2.024	61.27
S Fr.	0.373	0.683	1.187	83.77	4.056	1	1.340	877.2	0.821	24.85
H Fl.	0.279	0.510	0.886	62.53	3.028	0.747	1	654.9	0.613	18.55
Lira	0.425	0.778	1.353	95.49	4.624	1.140	1.527	1000.	0.936	28.33
C $	0.455	0.832	1.445	102.0	4.941	1.218	1.632	1069	1	30.27
B Fr.	1.502	2.748	4.775	337.1	16.32	4.024	5.390	3530	3.303	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Three-month sterling improves

STERLING INTEREST rate futures managed to shrug off the effects of the pound's weaker tone, and finished with net gains in Liffe trading yesterday.

The firmer trend suggests a renewed air of confidence about the path of UK interest rates over the near term. While a loss of confidence in the pound could possibly prompt another rise in base rates, many traders are cautiously optimistic that the current level of base rates may stick.

UK gilt futures were less impressed, and slipped away with sterling to a low of 94-11 in the March contract, finishing at 94-12, down from 95-01. Trading volume was brisk, with both sterling and gilt sectors recording over 20,000 lots traded.

US Treasury bond futures lost ground, despite a small reduction in the US trade deficit in October over September. The softer tone reflected concern about a rise in capacity utilisation and industrial production in November, which added to fears that the outcome of the latest Federal Open Market Committee meeting will presage a rise in the US discount rate.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE FT-SE INDEX FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS £25,000 (cents per £1)

[illegible]

LIFFE EURODOLLAR OPTIONS $1m points of 100%

[illegible]

LIFFE SHORT STERLING

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS £12,500 (cents per £1)

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

[illegible]

THREE MONTH STERLING £500,000 points of 100%

[illegible]

FT-SE 100 INDEX £25 per full index point

[illegible]

THREE MONTH EURODOLLAR $1m points of 100%

[illegible]

US TREASURY BONDS 8% $100,000 32nds of 100%

[illegible]

6% NOTIONAL GERMAN GOVT. BOND DM 250,000 100ths of 100%

[illegible]

Estimated Volume 4238 (5290)
Previous day's open int. 9792 (9763)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8300	1.8250	1.8143	1.7987	1.7755

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM

[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

STANDARD & POORS 500 INDEX $500 times index

[illegible]

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Dec	1.8348	1.8348	1.8150	1.8178
Mar	1.8198	1.8200	1.8036	1.8052
Jun	1.8010	1.8010	1.7890	1.7862

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 89 Vol	Feb. 89 Last	May 89 Vol	May 89 Last	Aug. 89 Vol	Aug. 89 Last	Stock
[illegible]								
ROYAL DUTCH P	Fl. 230	220	6.50	153	8.80	4	14	Fl. 224.90
UNILEVER C	Fl. 110	224	4.50	24	8	13	9.70	Fl. 112.30
UNILEVER P	Fl. 110	6	1.40	129	3.60	20	5.70 B	Fl. 112.30
VAN OMMEREN C	Fl. 35	-	-	176	1.50	46	1.70	Fl. 32.50
WESSANEN C	Fl. 80	11	2.10	-	-	-	-	Fl. 79.50

TOTAL VOLUME IN CONTRACTS : 24,630

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%
ABN Bank	13
Adam & Company	13
AAB - Allied Arab Bk	13
Allied Irish Bank	13
● Henry Ansbacher	13
ANZ Banking Group	13
Associates Cap Corp	12
Authority Bank	13
● B & C Merchant Bank	13
Bank of Baroda	13
Banco Bilbao Vizcaya	13
Bank Hapoalim	13
Bank Leumi (UK)	13
Bank Credit & Comm	13
Bank of Cyprus	13
Bank of Ireland	13
Bank of India	13
Bank of Scotland	13
Banque Belge Ltd	13
Barclays Bank	13
Benchmark Bank PLC	13
Berliner Bank AG	13
Brit Bk of Mid East	13
● Brown Shipley	13
Business Mtge Tst	13½
CL Bank Nederland	13
Central Capital	13
● Charterhouse Bank	13
Citibank NA	13
City Merchants Bank	13
Clydesdale Bank	13
Comm. Bk. N.East	13
Co-operative Bank	*13
Coutts & Co	13
Cyprus Popular Bk	13
Dunbar Bank PLC	13
Duncan Lawrie	13
Equatorial Bank plc	13
Exeter Trust Ltd	13½
Financial & Gen. Bank	13
First National Bank Plc.	14
● Robert Fleming & Co.	13
Robert Fraser & Ptnrs.	13½
Girobank	13
● Guinness Mahon	13
HFC Bank plc	13
● Hambros Bank	13
Heritable & Gen Inv Bnk	13
● Hill Samuel	§13
C. Hoare & Co.	13
Hongkong & Shangh	13
● Leopold Joseph & Sons	13
Lloyds Bank	13
Meghraj Bank Ltd	13
McDonnell Douglas Bnk	13
Midland Bank	13
Mortgage Express Ltd.	‡13.95
Mount Banking Corp.	13
Nat Bk. of Kuwait	13
NatWestminster	13
Northern Bank Ltd	13
Norwich Gen. Trust	13
PRIVATbanken Limited	13
Provincial Bank PLC	14
R. Raphael & Sons	13
Roxburghe G'rantee	13½
Royal Bk of Scotland	13
Royal Trust Bank	13
● Smith & Williamson Secs.	13
Standard Chartered	13
TSB	13
United Bk of Kuwait	13
United Mizrahi Bank	13
Unity Trust Bank Plc	13
Western Trust	13
Westpac Bank Corp.	13
Whiteaway Laidlaw	13½
Yorkshire Bank	13

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MONEY MARKETS

Firmer tone prevails

FEARS ABOUT rising inflation and strong economic growth prompted a rise in European interest rates yesterday. The Belgian discount rate was increased to 7.5 p.c., and the Dutch central bank increased its sale and repurchase rate.

At the same time, the minimum accepted bid on a securities repurchase facility in Frankfurt was placed at 5-5.5 p.c. This makes the current 5 p.c. Lombard rate untenable, and a rise to 5.5 p.c. after a meeting of the Bundesbank central council today, is regarded as inevitable.

UK clearing bank base lending rate 13 per cent from November 25

Recent concern about inflation and strong growth tends to suggest that the European members of the Group of Seven are increasingly more likely to act to contain domestic expansionary pressure. This is not regarded as a contradiction of G7 policy, given that the fight against inflation is seen as equally important as fostering dollar stability.

A rise in the West German Lombard rate today, is likely to place further pressure on the French franc, and the Bank of France may take advantage of a sale and repurchase tender - scheduled for tomorrow - to increase French interest rates.

UK interest rates appeared to show little reaction to the firmer trend elsewhere. Interest rates in London have nearly doubled over the last six months, and most traders feel that any pressure on the pound, resulting from a rise in European rates, may have to be taken on the chin, since UK rates are already the highest of any major industrialised nation in the world.

The key three-month interbank rate was unchanged at 13¼-13⅛ p.c.

The Bank of England forecast a flat position in its day-to-day money market operations, with factors affecting the market including repayment of any late assistance and a take up of Treasury bills, together with bills maturing in official hands draining £55m, and the unwinding of sale and repurchase agreements accounting for a further £39m. There was also a rise in the note circulation of £230m, and banks brought forward balances £55m below target. These were offset by Exchequer transactions, which added £400m.

The forecast was revised to a surplus of £100m and then back to a flat position, and the Bank gave no assistance in the morning or afternoon.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.14) 3 months US dollars		6 months US Dollars	
bid 9⅜	offer 9½	bid 9⅜	offer 9½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10½
Broker loan rate	9¾-⅞
Fed.funds	8⅞-⅞
Fed.funds at intervention	-

Treasury Bills and Bonds

One month	6.64	Three year	9.22
Two month	7.88	Four year	9.20
Three month	8.41	Five year	9.19
Six month	8.80	Seven year	9.22
One year	9.07	10-year	9.17
Two year	9.21	30-year	9.02

Dec.14	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	5.00-5.10	5.50-5.70	5.50-5.70	5.40-5.60	5.50-5.70	5.00
Paris	8-8¼	8-8¼	8⅞-8⅞	8¼-8⅜	8⅜-8½	7.25
Zurich	3¾-4¼	5¼-5½	-	5-5¼	-	-
Amsterdam	5.43-5.56	5.52-5.62	-	5.62-5.72	-	-
Tokyo	4.15625	4.71875	-	4.53125	-	-
Milan	11¼-11⅞	12¼-12¾	-	12¼-12¾	-	-
Brussels	5.15	7¼-7½	-	7¼-7½	-	-
Dublin	7¼-7½	7½-7⅞	7¾-8	7⅞-8⅛	8⅛-8¾	-

LONDON MONEY RATES

Dec.14	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12	12½	12⅞	13¼	13¼	13⅛
Interbank Bid	10½	12¼	12¾	13⅛	13⅛	12⅞
Sterling CDs	-	-	12⅞	13⅛	13⅛	12⅞
Local Authority Deps.	11½	12⅜	13	13⅛	13⅛	12⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	11½	12⅛	12⅝	12⅝	-	-
Company Deposits	-	-	12⅞	13¼	13¼	13⅛
Finance House Deposits	-	-	12⅞	13¼	13⅛	13
Treasury Bills (Buy)	-	-	12⅝	12⅞	-	-
Bank Bills (Buy)	-	-	12⅝	12⅞	12½	-
Fine Trade Bills (Buy)	-	-	13¼	13⅛	13¼	-
Dollar CDs	-	-	9.55-9.50	9.35-9.30	9.45-9.40	-
SDR Linked Dep Offer	-	-	8¼	8¼	8⅜	8½
SDR Linked Dep Bid	-	-	8⅛	8⅛	8¼	8⅜
ECU Linked Dep Offer	-	-	8⅞	8⅞	8⅞	8⅞
ECU Linked Dep Bid	-	-	8¾	8¾	8¾	8¾

Treasury Bills (sell); one-month 12⅜ per cent; three months 12⅞ per cent; Bank Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Treasury Bills; Average tender rate of discount 12.6075 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 30 , 1988. Agreed rates for period December 26,1988 to January 24 , 1989, Scheme I: 13.27 p.c. Schemes II & III: 13.61 p.c. Reference rate for period November 1,1988 to November 30 , 1988, Scheme IV&V: 12.251 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12½ from December 1 , 1988; Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July 5,1988 , Deposits withdrawn for cash 5 per cent.

WORLD STOCK MARKETS

AUSTRIA

December 14	Sch.	+ or −
[illegible]	[illegible]	[illegible]

BELGIUM/LUXEMBOURG

December 14	Frs.	+ or −
[illegible]	[illegible]	[illegible]

DENMARK

December 14	Kr	+ or −
[illegible]	[illegible]	[illegible]

FINLAND

December 14	Mks	+ or −
[illegible]	[illegible]	[illegible]

FRANCE

December 14	Frs.	+ or −
[illegible]	[illegible]	[illegible]

FRANCE (continued)

December 14	Frs.	+ or −
[illegible]	[illegible]	[illegible]

GERMANY

December 14	Dm.	+ or −
[illegible]	[illegible]	[illegible]

GERMANY (continued)

December 14	Dm.	+ or −
[illegible]	[illegible]	[illegible]

ITALY

December 14	Lire	+ or −
[illegible]	[illegible]	[illegible]

ITALY (continued)

December 14	Lire	+ or −
[illegible]	[illegible]	[illegible]

NETHERLANDS

December 14	Fls.	+ or −
[illegible]	[illegible]	[illegible]

NORWAY

December 14	Kroner	+ or −
[illegible]	[illegible]	[illegible]

SPAIN

December 14	Pts. %	+ or −
[illegible]	[illegible]	[illegible]

SWEDEN

December 14	Kronor	+ or −
[illegible]	[illegible]	[illegible]

SWITZERLAND

December 14	Frs.	+ or −
[illegible]	[illegible]	[illegible]

SOUTH AFRICA

December 14	Rand	+ or −
[illegible]	[illegible]	[illegible]

JAPAN

December 14	Yen	+ or −
[illegible]	[illegible]	[illegible]

AUSTRALIA

December 14	Aust.$	+ or −
[illegible]	[illegible]	[illegible]

AUSTRALIA (continued)

December 14	Aust.$	+ or −
[illegible]	[illegible]	[illegible]

HONG KONG

December 14	H.K.$	+ or −
[illegible]	[illegible]	[illegible]

SINGAPORE

December 14	S$	+ or −
[illegible]	[illegible]	[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (a) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
2pm prices December 14

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

NEW YORK DOW JONES

	Dec 13	Dec 12	Dec 9	Dec 8	1988 High	1988 Low	Since compilation High	Since compilation Low
Industrials	2143.49	2139.58	2143.49	2141.71	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.27	89.37	89.51	89.34	[illegible]	[illegible]	—	—
Transport	946.17	947.25	951.30	943.00	951.30 (9/12)	737.57 (2/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	184.98	185.46	185.04	184.98	190.02 (29/11)	[illegible]	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2151.14 (2165.18) Low 2119.31 (2133.89)

STANDARD AND POOR'S								
Composite ‡	276.31	276.52	277.03	276.56	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	318.42	318.43	319.06	318.46	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	25.01	25.13	25.22	25.23	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	155.24	155.34	155.59	156.37	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	295.82	296.67	297.61	297.38	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	372.98	374.20	375.20	375.22	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec 9	Dec 2	Nov 25	year ago (approx.)
Dow Industrial Div. Yield	3.71	3.79	3.82	3.69
	Dec 7	Nov 30	Nov 16	year ago (approx.)
S & P Industrial div. yield	3.15	3.21	3.32	3.31
S & P Indl. P/E ratio	12.80	12.64	12.13	16.39

TRADING ACTIVITY † Volume Millions	Dec 13	Dec 12	Dec 9
New York	132.340	124.16	133.770
Amex	8.490	8.330	8.798
OTC	114.141	99.218	113.557

NEW YORK	Dec 13	Dec 12	Dec 9
Issues Traded	1,979	1,968	1,970
Rises	540	638	776
Falls	863	768	645
Unchanged	576	570	549
New Highs	18	46	38
New Lows	38	32	24

CANADA

TORONTO	Dec 13	Dec 12	Dec 9	Dec 8	1988 High	1988 Low
Metals & Minerals	2980.9	3006.1	3013.8	3007.1	3226.5 (5/7)	2238.7 (8/2)
Composite	3295.8	3295.2	3301.0	3307.3	3466.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1645.58	1644.34	1649.92	1650.23	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Detroit Edison	4,867,700	16¾	+ ¼	Pillsbury	1,471,500	62⅞	+ ⅛
Texaco	2,453,800	51⅛	+ 1	General Electric	1,464,300	45⅞	− ⅛
RJR Nabisco	1,991,300	90½	+ ⅛	Exxon	1,446,000	45⅝	+ 1
Lilco	1,752,800	13	+ ½	NatSemi	1,303,800	9½	+ ⅜
AT&T	1,623,900	29⅛	....	Harnischf	1,296,200	15¼	+ ⅛

Base values of all indices are 100 except NYSE All Common − 50; Standard and Poor's − 10; and Toronto Composite and Metals − 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 14	Dec. 13	Dec. 12	Dec. 9	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1457.7	1457.5	1469.4	1471.0	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	662.9	665.0	674.0	675.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	219.3	219.1	219.3	218.9	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5407.2	5405.7	5414.50	5404.90	5434.50 (12/12)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	254.29	255.23	257.62	259.17	261.07 (6/12)	180.68 (4/1)
FINLAND						
Unitas General (1975)	730.6	733.0	740.9	743.2	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	394.7	395.8	396.8	394.2	397.2 (9/11)	251.3 (29/1)
Ind. Tendance (31/12/87)	151.6	152.2	152.9	152.4	153.4 (4/11)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	535.58	533.5	535.68	538.27	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1607.7	1600.3	1607.7	1616.4	1641.6 (27/10)	1207.9 (29/1)
DAX (30/12/87)	1286.61	1290.63	1292.69	1301.43	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2642.08	2651.92	2665.94	2671.36	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	569.27	572.31	576.08	575.63	598.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	29754.73	29597.81	29672.29	29793.42	30050.82 (7/12)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2301.68	2292.24	2296.15	2305.48	2314.20 (7/12)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	277.1	278.6	277.4	277.3	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	245.0	246.1	244.5	244.2	252.6 (31/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	440.35	441.14	438.98	432.47	441.14 (13/12)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1001.30	1002.51	1001.20	1002.26	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1321.0	1336.0	1365.0	1365.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1903.0	1901.0	1906.0	1904.0	1906.0 (12/12)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	277.43	277.70	278.09	277.00	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3345.4	3344.3	(u)	3350.9	3350.9 (9/12)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	588.0	590.3	591.6	589.0	591.6 (12/12)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	488.2	489.9	492.4	493.8 (6/12)	401.0 (21/1)

**Saturday Dec. 10: Japan Nikkei (c) and TSE (c)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX − 1,000 JSE Gold − 255.7 JSE Industrials − 264.3 and Australia, All Ordinary and Mining − 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Wednesday 14 December 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Engineering	115.1m	795	+23	Kobe Steel	37.1m	751	−8
Sumitomo Metal	58.0m	774	−8	Nippon Steel	36.2m	928	−10
Hitachi Zosen	43.7m	842	+8	Japan Line	28.7m	634	−26
NKK	40.1m	874	+1	Mitsubishi Elec.	19.2m	1,060	+40
Nisshin Steel	38.4m	1,200	+50	Ube Industries	16.7m	728	+8

3pm prices December 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A—A—A —								
27⅞	16	AAR	.44	1.9	16	339	23¼	23	23	
10⅛	8¼	ACM n	1.01	11.		79	9	8⅞	8⅞	
12⅛	10½	ACMIn	1.26a	12.		590	10⅝	10½	10⅝	
10⅝	9⅞	ACM M	n.08e	.8		493	10	9⅞	10	
12⅛	10⅝	ACMSc	n1.26	12.		806	10⅝	10½	10⅝	
10⅛	8⅝	ACMSp	n1.01e	12.		563	8⅞	8⅝	8¾	
5⅝	2⅞	AMCA	.12e	3.7		45	3¼	3¼	3¼	
6¼	3⅞	AM Intl				1320	5	4⅞	4⅞	
23¼	18⅛	AM Int pf	2	9.2		26	21⅝	21½	21⅝	+ ⅛
55	29¼	AMR			9	1092	53	52⅝	53	+ ⅛
8½	5⅛	ARX			10	95	6	5⅞	5⅞	
54½	35¼	ASA	3a	7.8		230	39¼	38⅝	38½	+ ⅛
20¼	12⅞	AVX	.12e	.7	11	107	16⅞	16¼	16⅞	+ ¼
52⅞	42⅞	AbtLab	1.20	2.5	15	2072	47⅝	47	47¼	+ ⅛
21⅛	15⅝	Abitibi g	1			29	16	15⅞	15⅞	− ⅛
13⅞	7½	AcmeC	.40	6.2		358	7⅞	7⅞	7⅞	+ ⅛
8⅞	5⅞	AcmeE	.32b	5.2	27	22	6⅛	6⅛	6⅛	
29½	15¼	Acuson			28	537	24¼	23⅞	24¼	+ ½
17	14½	AdaEx	1.82e	12.		63	15	14⅞	15	+ ⅛
16⅞	7⅛	AMD			14	3393	7⅝	7¼	7½	+ ⅛
43½	28¼	AMD pf	3	10.		266	29⅞	29⅛	29⅛	
8½	4¼	Adobe				40	6¼	6⅛	6¼	+ ⅛
18½	16¼	Adob pf	1.84	11.		67	17⅜	17⅛	17⅜	+ ⅛
21⅛	19¼	Adob pf	2.40	12.		1	20¼	20¼	20¼	+ ¼
9⅛	5⅞	Advest	.12	1.7	22	142	7	6⅞	7	+ ⅛
52½	39½	AetnLf	2.76	5.9	8	623	47⅛	46⅝	46⅞	− ½
34¼	21⅛	AflPb s	.22	.7		770	33½	33⅛	33⅞	− ⅛
18⅝	13	Ahmans	.88	5.7	9	1432	15½	15¼	15⅜	− ⅛
4⅞	1⅞	Aileen				10	3⅝	3⅝	3⅝	− ⅛

Continued on Page 43

هكذامن الأجل

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

Sales figures are unofficial.Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months.g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year. omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months,plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales infull. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices December 14

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm prices December 14

[illegible]

AMERICA

Dow drifts despite deficit report

Wall Street

SEVERAL economic releases yesterday failed to determine a new trend for the equity market, which continued to drift in low volume, *writes Janet Bush in New York.*

At 1.30 pm, the Dow Jones Industrial Average was quoted 6.22 points lower at 2,137.27. Volume totalled only 82m shares by midsession.

Overall, the figures released yesterday were in line with expectations and added little to current arguments about whether the US Federal Reserve would opt to tighten monetary policy again or whether a discount rate was in the pipeline. The two-day meeting of the Federal Open Market Committee ended and traders will now be watching for signs of a shift in operations in the money market and also studying the dollar.

Financial markets, on balance, slid modestly after the figures but trading was quiet and had little momentum.

The economic releases appeared to provide evidence that industrial production is continuing strong, capacity usage is creeping up and progress in reducing the trade deficit is very slow.

The seasonally adjusted US trade deficit narrowed marginally to $10.35bn in October compared with a revised $10.67bn in September. Many economists believe the trade deficit is now stuck at about a monthly $10bn.

Industrial production rose 0.5 per cent in November, the same gain as in October. Capacity utilisation rose to 84.2 per cent last month compared with 84.0 per cent in October, taking the usage rate to its highest level since November, 1979.

There is concern that, with capacity usage rates so high, manufacturers have little scope to boost their exports further and therefore continue to aggravate the deficit.

However, it is unclear whether the economy is growing fast enough and inflationary pressures are substantial enough for the US Federal Reserve to tighten policy. Leading forecasts appear to be divided on whether the economy will continue growing throughout 1989 or will slow sufficiently to drop into the Fed's favoured non-inflationary range.

Probably the key focus for markets now this week, apart from producer prices figures tomorrow, will be whether the *Bundesbank raises its Lombard* rate at today's policy-making council meeting. The Belgian and Dutch central banks yesterday moved key interest rates ½ point higher.

If there is no clear justification for higher US interest rates on domestic economic grounds, then a further bout of dollar weakness, because of rising interest rates overseas, could provide a reason.

With no direction from yesterday's figures, the equity market seems doomed to trade in its recent narrow range. Mr Newton Zinder, equity analyst at Shearson Lehman Hutton, said that a neutral trade number leaves the market to its own internal dynamics. He suggested that, on various technical measures, the market looks more likely to fall.

Among featured stocks was First Fidelity Bancorp which slumped $7⅝ to $27⅞. The bank said it expected a fourth quarter loss of up to $190m, related to bad real estate and commercial loans made by its London branch.

Caesars World, the hotels and casinos chain, gained $3⅞ to $29⅜ after Mr Donald Trump, the New York investor, filed to build a stake of 15 per cent or more in the company, perhaps with a view to seeking full control.

SmithKline Beckman added $1¼ to $50¼. The stock has been rising on takeover speculation but seemed to receive an added boost from news that it had filed for approval from the Federal Drugs Administration of its Corlopam blood pressure drug.

Longview Fibre gained $1⅝ to $75¼ on takeover speculation. Its stock has moved 5 per cent higher this week.

Syntex, another drug company which has benefited from talk that it could be a takeover target, was one of the most actively traded issues on the New York Stock Exchange yesterday. It rose $1 to $43¼.

Canada

FEARS of higher interest rates pushed Toronto slightly lower after news of strong capacity use and industrial output in the US.

The composite index lost 2.6 to 3,293.3 on light turnover of 10.6m shares.

Show goes on in sluggish Madrid

Business was quiet, but not because of the strike, writes Peter Bruce

AS BEFITS one of the citadels of Spain's rampant new capitalism, the Madrid Stock Exchange was open for business yesterday in spite of the closure of almost the entire country during a 24-hour general strike in protest at government employment policies.

The market, in fact, reported an abnormally high turnout of traders, though business was light with the general index closing down just 0.27 points at 277.43 – which is roughly where it has languished for the past three months.

The bolsa had already discounted the strike and the index had been rising sluggishly for the past few days.

The most reliable explanation for the market's uninspiring performance in the last quarter of this year is that it is exhausted. The general index, after all, is still up nearly 30 per cent on last year's disastrous October.

However, the past 14 months have been difficult. The Government's inflation target of 3 per cent for the year has proved too optimistic and it will be lucky to end 1988 with an accumulated rate of 5 per cent.

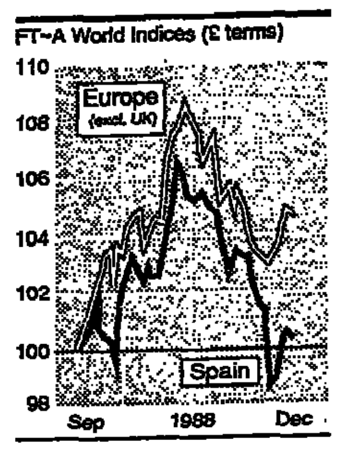
Consumer price index increases of a full 1 per cent in both August and September shocked the markets and forced the Bank of Spain to halt its efforts to reduce the country's chronically high interest rates gradually.

Interbank money, which by last summer had dribbled down to 10.5 per cent from 19.6 per cent in the spring of 1987, was raised to 11.4 per cent after the August inflation figures were published and then again to 12.4 per cent two days ago.

Analysts in Madrid say a rise in interest rates back to the horrendous levels of early 1987 is unlikely. The Government remains the biggest seller of paper in the debt markets and would not relish its borrowing becoming too expensive again.

Luckily for the Government, perhaps, the markets are now learning to ignore its inflation targets, which are routinely being set well below the underlying rate of inflation, currently just over 5 per cent. Thus when, as seems inevitable, the 3 per cent target for next year is missed again the shock might not be so acute.

"Most people don't think 3 per cent is very realistic," says Mr Juan Cueto, equities analyst with F&G Inversiones Bursatiles.



The market has other problems with the Government besides inflation forecasting – 27 companies quoted in Madrid are currently in the process of raising new capital because of fears that the Finance Ministry is about to close a loophole which enabled new shares distributed under rights issues to be sold without the seller paying any tax until the original shares are sold. The loophole has made Spanish rights issues attractively tax efficient.

The fears are partly the Government's fault: draft legislation is hazy and the market is worried about when it will come into effect. The ministry recently proposed to allow companies entering the market for the first time still to issue stock that can be sold, once, tax free. Existing quoted companies will probably have this particular avenue closed, hence the late rush of rights issues.

The measure may be introduced in January, though Spanish legislative deadlines are notoriously flexible. What is certain is that the days are over when an owner could sell almost an entire company by making a huge rights issue to him or herself, sell the rights to the buyer of the company and walk away without paying much capital gains tax.

The amount of new cash now being sought on a market as small as Madrid has, analysts say, drained its power. Turnover in the first 11 months of this year at Pta 2.4 trillion (million million) ($21.1bn) is already 34 per cent down on the same period last year – and no one is in any mood to start breaking records this close to Christmas.

ASIA PACIFIC

Growing optimism helps blue chip electrical issues

Tokyo

POSITIVE expectations of the US trade figures due yesterday helped to increase investors' interest in the market and share prices rose on better volume, *writes Michiyo Nakamoto in Tokyo.*

Trading was more active than it has been in the past few sessions and the Nikkei average moved up through the day to close 156.92 higher at 29,754.73. The index peaked at 29,772.19 and dropped to a low of 29,622.25.

Rises outnumbered falls by 483 to 394 while 182 issues were unchanged. Volume improved to 1.02bn shares compared with 771m on Tuesday. The Topix index of all listed shares rose by 9.10 to 2,301.24. In London trading, the ISE/Nikkei index edged up 1.31 to 1,889.45.

Growing expectations that the US trade figures for October would show a deficit on the lower side of predictions led investors to focus attention on blue chip electricals, encouraged by the continuing strength of the dollar against the yen.

Such a response is often seen just before the announcement of US trade figures and interest tends to disappear as quickly as it arises, said Mr Masami Okuma, chief trader at UBS Phillips & Drew International.

At the same time, interest in former market leaders – large-capital steels and shipbuildings – has so far failed to materialise and only underperformers within these sectors have attracted much buying enthusiasm.

The big brokers are said to be pushing these issues, but investor demand has not kept up with their efforts. One difficulty facing the large-capitals is they have come close enough to their previous highs for investors to feel there is little room left for more gains.

Among export-dependent electricals, *Sony* was the leader, rising Y250 to Y7,090. Matsushita advanced Y90 to Y2,450 and NEC gained Y60 to Y2,030, while Hitachi and Mitsubishi Electric both firmed Y40 to Y1,600 and Y1,060 respectively and Toshiba advanced Y20 to Y1,030. Electricals have featured on and off as underperformers, but yesterday volume was not as encouraging as their price gains and analysts said they might be sold very quickly on profit-taking.

Precision stocks such as Nikon and Canon, which depend on exports, were likewise firm. Nikon rose Y100 to Y1,270 and Canon increased Y90 to Y1,440.

The large-capital issues have not been able to live up to expectations that they would once again lead the market on a new rally. Those selected yesterday were generally felt to be *low-priced, such as Mitsui* Engineering and Shipbuilding, the most actively traded issue at 115.1m shares. It closed up Y23 at Y795. Hitachi Zosen, also relatively low-priced, gained Y8 to Y642 after rising to Y655 during the day on 43.7m shares, making it the third most active stock.

Among steels, Nisshin Steel added Y50 to Y1,200 in active trading. Others were out of favour, with Sumitomo Metal, second in volume terms at 56m shares, losing Y8 to Y774 and Nippon Steel falling Y10 to Y938.

Pharmaceuticals, which have been intermittently selected as laggards, gained yesterday. Yamanouchi added Y60 to Y4,220 and Daiichi Seiyaku advanced Y40 to Y2,940. Sankyo closed up Y30 at Y2,160.

Profit-taking was offset by gains in export stocks in Osaka, leaving the OSE average 72.05 higher at 28,004.03. Volume was substantially better at 95.4m shares compared with 61.1m on Tuesday. Omron Tateishi Electronics increased Y80 to Y2,360.

Roundup

THE WAIT for the US trade data, due after the close, kept turnover low in Asia Pacific markets and most ended little changed.

AUSTRALIA was steady as bargain hunters appeared in response to early falls caused by weaker metal prices. The All Ordinaries index finished 0.2 higher at 1,457.7 in low volume of 73m shares worth A$116m.

Metal prices dropped after the resolution of a miners' strike in Peru and mining stocks followed suit. CRA lost 4 cents to A$7.58.

HONG KONG dropped in late trading with utilities and properties leading the way down. The Hang Seng index lost 9.84 to 2,642.08 and volume was low at HK$640m.

Hongkong Telecom, a large capitalisation stock, lost 5 cents to HK$4.90. CP Pokphand again saw heavy trading following its acquisition of a 74.7 per cent stake in Yue Hwa, the department store group, and rose 2 cents to HK$1.77.

SINGAPORE had a quiet session, with demand focusing on selected Malaysian issues and low priced stocks.

The Straits Times industrial index lost 1.21 to 1,001.30 and turnover fell to 18.7m shares from Tuesday's 26m.

NEW ZEALAND shares fell on news of the sacking of Mr Roger Douglas, the Finance Minister. A sharp setback in the government bond market combined with disruptive power cuts caused by an electricity workers' strike to add to the market's uncertainty. The Barclays index fell 14.08 to 1,750.56.

SEOUL finished mixed after early losses were balanced by gains in the construction sector, on hopes of better trading prospects with the Soviet Union. The composite index ended just 2.58 higher at 922.57.

SOUTH AFRICA

THE SLOW decline by gold shares in Johannesburg continued as the bullion price *slipped. Southvaal lost R3 to* R116.50. Charter Cons, the mining financial, fell R2 to R32.25 after reporting higher interim profits.

EUROPE

Daimler setback reverses Frankfurt's gains

THE traditional pause for the US trade figures kept European activity subdued, while concern about rising money market rates also played a part, especially in Paris, *writes Our Markets Staff.*

FRANKFURT came off in the last hour and a half of trading after a strong day, supported by some foreign buying and a stable dollar. A fall in the price of Daimler, one of the "Holy Trinity" market leaders, *spurred a broader downturn,* exacerbated by position-squaring in the last 15 minutes of the session. But the US trade figures, at the better end of expectations, helped prices to rise in the after-market.

Investors appeared to be taking a less fearful view of the Bundesbank's meeting today, at which a rise in the Lombard rate has been widely rumoured. Some analysts said a ½ point increase was already in prices *while others doubted* the rate would be changed.

At midsession, the FAZ had recouped Tuesday's losses with a 2.08 rise to 535.58. But the DAX index reflected the late decline, ending 4.02 easier at 1,286.61. Turnover was better than Tuesday at DM2.87bn *worth of domestic shares.*

Daimler's fall was triggered by profit-taking and renewed uncertainty about the outcome of its planned takeover of MBB, the aerospace group. News on Tuesday that Daimler would hold its dividend at DM12 was expected, but investors were said to be hanging fire over the company until the MBB question was finalised and cost savings plans put into effect. The stock fell DM12.30 to DM736.

Deutsche Bank was also in the news, rising DM3.30 to DM541.50 as information leaked out about its 24 per cent *rise in group operating profits* in the first 10 months. According to one analyst, the 3.3 per cent rise in partial operating profits was better than expected *but "nothing to be jumping* about," especially given the likelihood of a large rights issue to finance the bank's move into life insurance.

Engineer *MAN*, which said results so far in the year to end June 1989 were better than expected, rose DM1 to DM241, just DM1 off its year's high.

PARIS was *dominated* by interest rate worries, with no evidence of speculative stories to break the malaise. Volume was estimated at about FFr1bn and share prices *slipped* with the CAC General index off 1.1 at 394.7 and the OMF 50 index down 1.49 at 410.58. One analyst said: "It's been desperately boring and difficult to find anything specific to go on."

Investors were waiting for today's Bundesbank meeting: if German interest rates go up the French rate is expected to follow suit. The French Finance Ministry said government policy was to maintain the franc at its current level against the D-Mark.

Privatised bank Société Générale ran into profit-taking, losing FFr20 to FFr556. Skis Rossignol, forecasting a lower annual profit, added FFr1 to FFr1,240. Havas, the advertising and leisure group, put on *FFr15 to FFr696* after indicating it was looking to link up with other European groups in the same sector.

Institut Mérieux saw about *700 shares traded, high for the* stock, and rose FFr30 to FFr5,500 on renewed interest in its work on an AIDS drug.

ZURICH stayed in the doldrums, ending slightly lower after a featureless session. The Crédit Suisse index eased 1 to 511.1.

Ciba-Geigy, which is selling its Ilford paper group for an undisclosed amount to International Paper of the US, saw its bearers drop SFr10 to SFr2,840.

Among insurance companies Swiss Re bearers lost SFr450, or more than 4 per cent, to SFr9,300.

AMSTERDAM was unable to summon much response to the US trade figures, a rise in Dutch money rates and a late fall in the dollar. The CBS all-*share index ended a thin day* unchanged at 100.9.

Speculative shipping stock Nedlloyd gained a further Fl 2 to Fl 248.20, while textiles company *Nijverdal-ten Cate added* 60 cents to Fl 79.30 amid talk of an order for uniforms from the US army.

MILAN saw volume pick up slightly as investors took their last opportunity to reshuffle portfolios in 1988. Settlement of trades in the new monthly *account starting today will not* take place until January. The Comit index eased 3.04 to 569.27.

BRUSSELS suffered from end-of-year lethargy, finishing narrowly mixed in quiet trading. There was little response to the Belgian National Bank's raising of interest rates by ¼ point.

GBL, the holding company, dropped BFr100 to BFr3,630 in fairly heavy trading of 7,400 shares after reports that Drexel Burnham Lambert, its US affiliate, was on the point of settling a law suit that could involve a fine of up to $750m.

HELSINKI *had* a weak day although Nokia shares picked up after their beating on Tuesday, which followed news of the death of the company's chief executive.

Nokia ordinary free shares rose FM4 to FM130 and its preference shares added FM6.50 to FM86. The Unitas all-share index fell 2.4 to 730.6.

STOCKHOLM reacted positively to confirmation that Volvo was considering selling its property to release liquidity. The car maker's restrictive B shares added SKr4 to SKr373 in active trading and the Affärsvärlden index rose 2.1

OSLO took a break from its recent record run, with the all-share index easing 0.35 to 321.68 on profit-taking.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

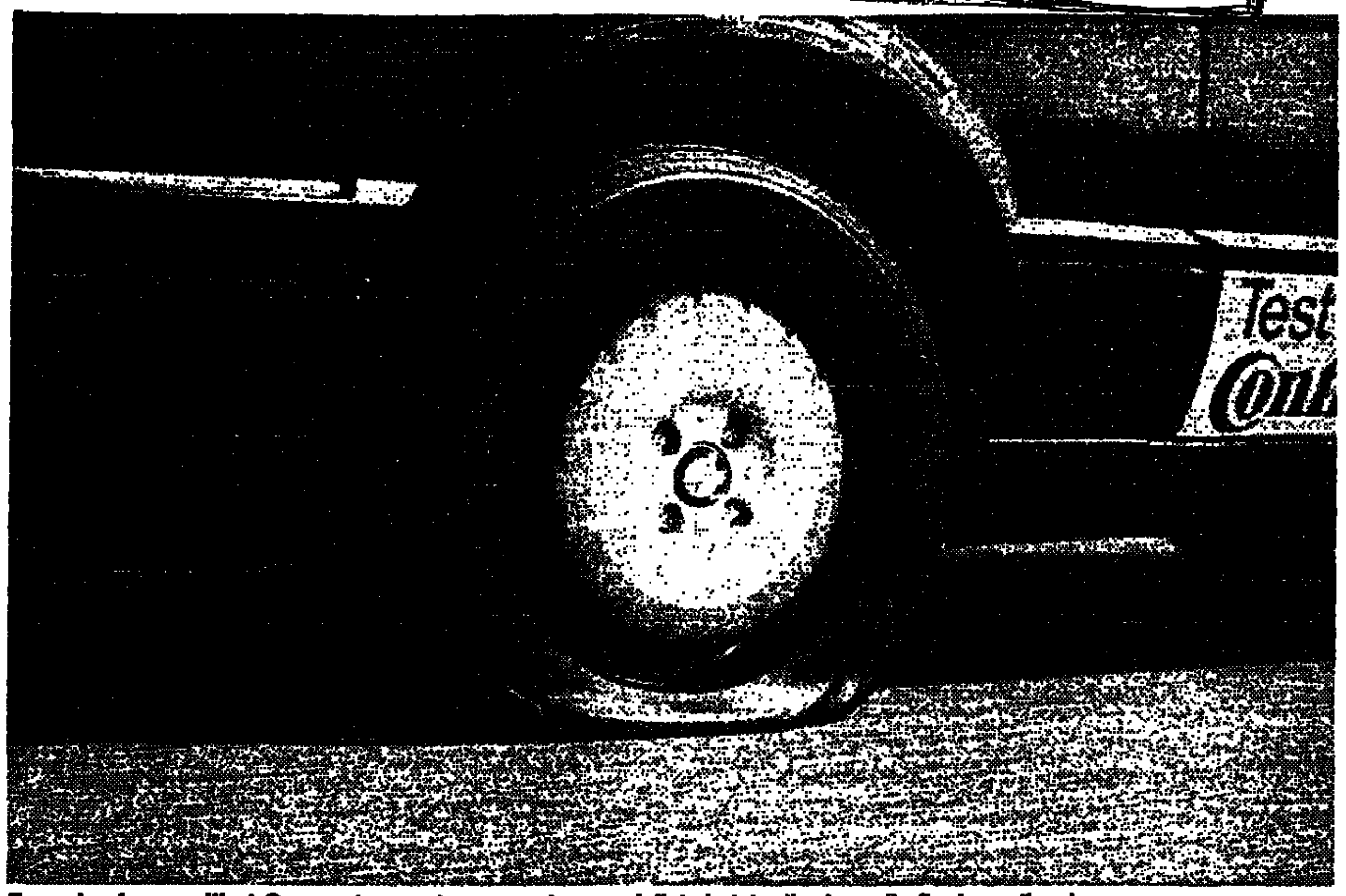
NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 13 1988					MONDAY DECEMBER 12 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (90)	141.04	−2.0	114.39	110.78	4.88	143.97	115.88	111.61	152.31	91.16	96.12
Austria (18)	97.36	−0.4	78.96	88.35	2.79	97.74	78.67	88.38	100.00	83.72	94.83
Belgium (63)	133.82	−0.7	108.53	121.45	4.17	134.74	108.45	121.79	139.89	99.14	95.95
Canada (125)	121.08	+0.0	98.20	105.17	3.41	121.07	97.44	105.02	128.91	107.06	109.00
Denmark (39)	154.22	−1.1	125.08	141.32	2.15	155.90	125.48	142.70	159.19	111.42	114.21
Finland (26)	133.74	−1.1	108.47	115.61	1.45	135.21	108.83	116.49	139.83	106.78	–
France (130)	110.77	−1.0	89.84	103.73	3.13	111.87	90.04	104.41	112.34	72.77	84.61
West Germany (102)	86.76	−0.8	70.37	78.83	2.37	87.45	70.39	79.13	88.26	67.78	76.26
Hong Kong (46)	109.73	−0.6	89.00	109.99	4.70	110.44	88.89	110.70	111.86	84.90	80.51
Ireland (18)	131.20	+0.6	106.41	120.83	4.17	130.44	104.99	119.70	144.25	104.60	100.04
Italy (98)	83.97	−1.1	68.10	80.77	2.50	84.88	68.32	81.33	86.73	62.99	76.40
Japan (456)	188.50	−0.4	152.88	146.67	0.51	189.25	152.33	146.85	190.93	133.61	144.19
Malaysia (36)	141.85	−0.1	115.05	146.80	2.89	142.00	114.29	146.86	154.17	107.83	101.45
Mexico (13)	174.99	−0.1	141.92	436.69	1.17	175.18	141.00	436.69	182.24	90.07	121.95
Netherland (38)	109.86	−0.6	89.10	98.88	4.99	110.54	88.97	99.11	111.00	95.23	95.76
New Zealand (25)	65.19	−0.6	52.87	54.22	7.28	65.61	52.81	54.40	84.05	64.42	75.97
Norway (25)	133.63	+0.3	108.38	117.49	2.47	133.16	107.18	116.72	133.63	98.55	98.87
Singapore (26)	119.84	+0.1	97.20	107.03	2.53	119.73	96.37	106.87	135.89	97.99	87.79
South Africa (60)	121.35	−0.8	98.42	99.16	4.67	122.30	98.43	99.93	139.07	98.26	140.06
Spain (42)	148.36	−0.9	120.33	127.74	3.20	149.76	120.54	128.48	164.47	130.73	122.69
Sweden (35)	143.36	+0.0	116.28	128.51	2.22	143.38	115.40	128.26	144.32	96.92	94.60
Switzerland (57)	78.31	−1.0	63.51	71.39	2.38	79.08	63.65	71.77	86.75	74.13	79.62
United Kingdom (316)	133.33	−0.5	108.13	108.13	4.97	133.97	107.83	107.83	141.51	120.66	125.24
USA (576)	112.56	−0.1	91.29	112.56	3.65	112.63	90.66	112.63	115.55	99.19	98.71
Europe (1007)	112.82	−0.7	91.50	97.69	3.84	113.59	91.43	97.83	116.61	97.01	100.09
Pacific Basin (679)	183.33	−0.5	148.69	143.58	0.73	184.16	148.23	143.78	185.81	130.81	139.92
Euro–Pacific (1686)	155.10	−0.5	125.79	125.39	1.65	155.91	125.49	125.57	158.08	120.36	124.02
North America (701)	113.00	−0.1	91.65	112.12	3.63	113.07	91.01	112.18	116.07	99.78	99.25
Europe Ex. UK (691)	99.78	−0.8	80.93	91.43	2.98	100.61	80.98	91.86	101.29	80.27	84.49
Pacific Ex Japan (223)	121.62	−1.4	98.64	104.52	4.77	123.32	99.26	105.17	128.27	87.51	88.29
World Ex. US (1884)	153.59	−0.5	124.57	124.59	1.72	154.37	124.25	124.77	156.39	120.26	123.67
World Ex. UK (2144)	138.27	−0.4	112.14	121.78	2.06	138.78	111.70	121.97	139.61	111.77	112.92
World Ex. So. Af. (2400)	137.92	−0.4	111.86	120.61	2.29	138.43	111.42	120.75	139.52	113.26	113.83
World Ex. Japan (2004)	113.42	−0.4	91.99	106.72	3.77	113.82	91.61	106.85	115.54	100.00	99.54
The World Index (2460)	137.81	−0.4	111.77	120.47	2.31	138.33	111.34	120.61	139.43	113.37	114.00

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Latest prices were unavailable for this edition.
Mexican market closed December 12.

SECTION III
FINANCIAL TIMES SURVEY

The intensely competitive world tyre industry is being concentrated into fewer and fewer hands. Now, after the recession of the early 1980s, profit margins are improving, with forecasts of steady growth in the world market, as **John Griffiths** reports here.

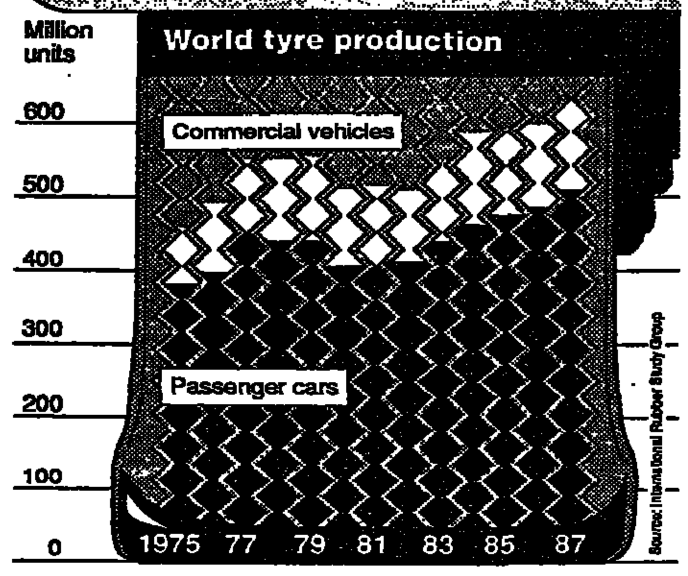


Example of a new West German tyre system: even in an uninflated state, the tyre sits firmly on the rim.

Tyre industry turnover: top ten

Tyre operations only
1988 estimates

	$ bn
Goodyear	8.00
Michelin	8.00
Bridgestone/Firestone	6.50
Continental/General Tire	3.50
Pirelli/Armstrong	3.40
Sumitomo/Dunlop	3.00
Uniroyal/BF Goodrich	2.00
Yokohama	1.70
Toyo	0.75
Cooper	0.65



World Tyre Industry

Survival of the biggest

TO MOST vehicle users, a tyre represents little more than a round, black, distress purchase. Behind its production, however, lies a global industry which is complex, technologically advanced – and huge. Its turnover this year will reach just under $45bn.

It is an industry which has suffered as much as any, and more than most, from the recession of the early 1980s; and one which has compounded its problems by virtuously shooting itself in the foot through giving its customers much more durable products than they had asked, or even bargained, for.

The consequences of eliminating the resultant over-capacity have included the loss of tens of thousands of jobs, mostly in Europe and North America, and the disappearance of dozens of small independent producers, swallowed up in most cases by the industry majors.

This year, the concentration process has reached the point where 85 per cent of the industry's world turnover is in the hands of just six large producers. That compares with 13 companies holding 80 per cent five years ago, and there are many senior executives in the industry who believe that the concentration process, even among the majors, may not yet be over.

Over the past three years, however, although tyre production has remained an intensely competitive and mostly low-margin business, the industry has had difficulty believing its luck.

The surviving players, having made their intensive cutbacks, plant closures and other rationalisation measures in the economic doldrums of the early to mid-1980s have seen their customer , the vehicle industry bounce back into boom.

Western Europe this year expects to see record car sales (of close to 13m) for the fourth year in a row, and commercial vehicles sales have made a spectacular recovery from an early-1980s recession which was the worst since the Second World War.

Car sales in the North America market, which had plummeted to 8.7m in 1982, reached more than 12m in 1985 and 1986, and are still running at more than 11m units a year. Commercial vehicle sales are also very buoyant.

Consultants DRI Europe are forecasting total world car production of 34.3m units this year, compared with 30m five years ago.

By 1986, the last year for which full figures are available, world commercial vehicle output had climbed by 31 per cent to nearly 12.5m, from under 9.5m in 1982.

Thus, tyres over-capacity has been turned into under-capacity by both the soaring demand for original equipment supplies from vehicle makers – which account for around 35 per cent of the total – and higher replacement demand in parallel with the fast-growing total world vehicle population.

As supply and demand have swung more into balance, so what was once a heavily loss-making industry has found itself once again making profits as margins have improved.

"Currently, we're selling every tyre we can make and are adding capacity", according to Mr Robert Mercer, chairman of Goodyear Tire & Rubber of the US, which is now locked in a fierce struggle with Groupe Michelin of France for the title of world's largest producer.

The potential trouble is, Goodyear is not alone.

Altogether, more than $6bn in new investment for at least 20 new plants, plus plant modernisations,has been announced or is already been undertaken by the industry's leading players.

Nearly a quarter of this was announced only this month by Bridgestone, Japan's largest tyre manufacturer, which earlier this year took the unusual step for a Japanese company of openly declaring its intention to wrest world leadership from its Western rivals.

The rest of the industry has no choice but to take Bridgestone's ambitions very seriously indeed – and not just because of the Japanese preoccupation with loss of face should it not attain its goal.

For it was Bridgestone which earlier this year shook its Western rivals – and infuriated Gruppo Pirelli of Italy in particular – by outbidding Pirelli to take over Firestone Tire & Rubber of the US, then the world's fifth largest producer, for $2.6bn.

It has taken much less time than any of its rivals expected for Bridgestone to draw up a $1.5bn investment plan which will include significant capacity expansions in both North America and Europe, with the aim of closing the gap between the new group's combined $6.5bn tyres turnover and the roughly $8bn each of Goodyear and Michelin.

The nagging worry now is that all this new capacity might just start coming on stream just when the world's car markets could be going into the next cyclical downturn.

Clearly, this could mark the return to a severe price war to an industry on which some, at least, of the cars from the last one are still faintly visible. Indeed, the competitive screw has already been tightened somewhat as a result of attempts by the majors to grab extra market share ahead of committing themselves to the capacity investments.

If consolation is to be found in such a scenario, it is that only a prolonged industry recession of considerable severity – deemed highly unlikely in the foreseeable future – would be likely to lead to any significant renewal of job-shedding in an industry which still employs some 500,000 directly in manufacturing worldwide, including the Comecon bloc.

Tighter management, demanning in pursuit of higher productivity and the introduction of more flexible manufacturing facilities better to cope with demand shifts have all combined to lessen such a risk.

For the moment at least, a mood of guarded optimism prevails in the industry. Forecasts of demand in the total world market vary, but all envisage steady if unspectacular growth.

Goodyear's Mr Mercer says he expects a compound annual growth rate of 3.1 per cent between last year and 1993, representing an increase of 64m units in car tyres alone. Mr Ludovico Grandi, general manager of the world tyre operations of Gruppo Pireli, the Italian tyres and cables group, is among the more pessimist, but still sees net growth of at least one per cent for the foreseeable future.

Both, in company with the other leading Western and Japanese producers, agree on two key requisites for long-term survival:

One is a global presence, developed in parallel with the current globalisation of the motor industry itself, and thus capable of taking advantage of world currency shifts.

By Goodyear's estimates, for example, since 1985 the yen -dollar shift, taken in isolation, has turned a Japanese cost advantage of 20 per cent over the US into a 30 per cent disadvantage (mitigated, however, by Japanese tyre work forces still being some 20 per cent more productive than their Western counterparts.)

But as Mr Mercer points out, "exchange rate advantages are never permanent, and low cost will be roaming around the world."

The second key requisite is seen as the ability fully to take part in an accelerating technology race which involves heavy investment in both product development and reducing production costs.

Following Michelin's invention of the radial, it was Pirelli which, in the early 1970s, developed the first generation of low-profile, high-performance tyres. All manufacturers now have them, and the tyres themselves have evolved further into ultra-low profile products offering grip and handling for roadgoing vehicles of an order unknown even to grand prix cars of less than 20 years ago.

They have allowed manufacturers, for once, to compete more on the product's technical merits than its price in both the original equipment and aftermarket sectors. Vehicle makers now tend to call in the tyre maker at the design stage of a new vehicle, so sophisticated has the relationship become between a vehicle's suspension and the tyres on which it must ride.

Continued on page 8

CONTENTS

The Asia-Pacific region could become a battleground for survival

New plants target Japan

THE Asia-Pacific region could be on the way to becoming a battleground in the intense fight for survival being waged by major tyre companies.

Last year, Michelin, the world's second largest tyre maker, opened a tyre production plant in Korea. It is building another one in Thailand where it expects to start production late next year. Michelin also set up a joint venture in May this year with Okamoto Industries, a Japanese tyre and rubber goods maker, to produce tyres in Japan.

Goodyear, the US company, also plans to start production in a new tyre factory in Korea.

While tyre makers seem intent on moving into the region, however, the market for tyres in this part of the world does not look promising. Demand is necessarily linked to the amount of car production and use in the region. In south-east Asia, the rates of car ownership and production are relatively low and there are no signs that a spectacular rise can be expected in either.

The domestic markets for tyres have been dominated by the industry's big global players. Goodyear has factories in more than six countries in the region, such as Malaysia and Taiwan, as well as a joint venture with Dunlop in Australia.

Bridgestone, the largest Japanese tyre maker, has two plants in Taiwan, and one each in Indonesia and Thailand while Firestone, which Bridgestone acquired earlier this year, has a plant in the Philippines. These giants produce more than the markets can digest and have the power to stifle local makers. In fact, in countries like Australia, domestic companies have mostly been eaten up by the larger and more well-funded foreign companies.

The notable exceptions to this picture are Japan and Korea where the markets for tyres are dominated by domestic manufacturers. Japan has four large tyre makers, beginning with Bridgestone, which, with its purchase of Firestone, could very well replace Michelin as the world's second largest tyre company.

Bridgestone controls about half the domestic market for automobile tyres. Yokohama Rubber ranks second as a producer of automobile tyres while Sumitomo Rubber, which controls Dunlop, is third. Toyo Tire and Rubber, which specialises in large tyres for buses and trucks, ranks third.

Earlier this year, Yokohama Rubber and Toyo Tire strengthened an existing business tie-up by acquiring equity stakes in each other. In addition, Okamoto Industries, principally a maker of condoms that also produces other rubber products, is set to bolster its tyre business through its joint venture with Michelin.

The Japanese companies were able to grow with little threat from the outside, thanks to the close and stable ties they have traditionally enjoyed with the country's automobile makers. Japanese car manufacturers, for example, stubbornly refused to buy foreign tyres for decades even though they were superior to domestic ones. Even today, as Japan faces intense outside pressure to open its markets to imports, foreign tyres are still largely limited to being put on cars for export.

Part of the reason behind the Japanese car makers' reluctance to buy foreign is their practice of not stocking components but of ordering them to be delivered precisely at the time they are needed for assembly. Foreign tyre manufacturers have been put at a disadvantage all along by this "just-in-time" delivery method pioneered by Toyota, as well as by the highly contorted distribution system that is typically Japanese.

The Korean tyre industry is also dominated by a number of domestic manufacturers such as Samyang Tire and Hankook Tire, which have been protected by extraordinarily high tariffs for imports, averaging 40 per cent of importing costs.

The domestic tyre makers that dominate the Japanese and Korean markets and the major producers firmly established in other parts of the region are already engaged in a fierce fight for a greater share of their own markets.

Countries such as Indonesia, Taiwan and Korea, where capacity far outstrips demand, are largely exporters of tyres, with Korea exporting about 70 per cent of its tyre production to the rest of the world. Japan also exports about a third of its tyre output and the south Pacific countries of Australia and New Zealand are likely to become exporters in the future, according to Mr. Mitsumasa Tada of the Japan Automobile Tire Manufacturers' Association (Jatma).

With the region's tyre markets already overflowing, is there really any hope for growth in the future? Some members of the industry think there is.

An official at Sumitomo Rubber says: "Asia will maintain its role as a tyre production base." He contends that growing demand for cars in the rapidly expanding newly industrialized economies of Korea, Taiwan, Hong Kong and Singapore, will spread to south-east Asia countries, such as Thailand, and the demand for tyres will follow naturally. Sumitomo Rubber already has a stake in a manufacturer and retailer in Taiwan and is also co-operating on technology with another Taiwanese maker.

Bridgestone also believes that although motorisation has been slow to come to the region, demand from the newly industrialized countries is set to grow. Bridgestone has no plans to construct new production plants in any of these countries, being fully occupied with its new acquisition, but it will be keeping a watchful eye on the area, according to a company official.

One industry analyst believes the new production plants are specifically targeting the Japanese market. Not only does Japan have the largest automobile industry and highest rate of car ownership in the area, it is also under intense pressure to increase imports. The automotive parts sector was one of those targeted by the US in its market-oriented sector-selective (MOSS) trade talks aimed at opening Japan's industrial markets to imports.

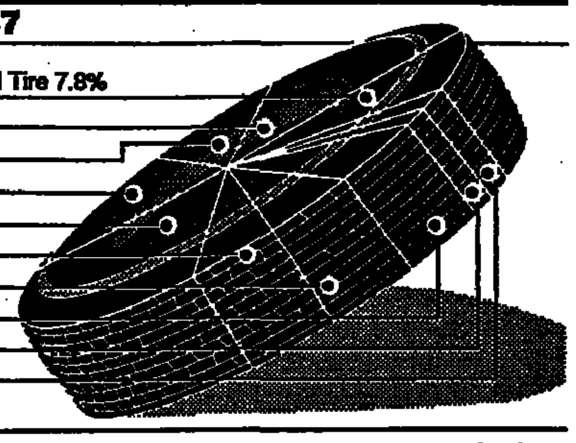
Helped in part by the yen's appreciation and in part by efforts to defuse trade tensions, tyre imports to Japan from the US had already increased 2.9 times to about 2.07m units in the January to June period of this year, compared with the same period a year ago, while those from Korea leaped by 86.8 per cent.

Australia could also be a target. The country has a huge replacement market, since most people keep their cars for at least 10 years, and Australian roads tend to be rough going.

But in the end, the Asia-Pacific region is just another battlefront in the worldwide struggle that is taking place among the industry's major contestants to stay alive. As one official at Okamoto said about the company's tie-up with Michelin: "It's a survival strategy."

Michiyo Nakamoto
Tokyo

World market shares, 1987



Excludes Comecon
Source: Industry estimates

PROFILE: BRIDGESTONE

International expansion sends out shock waves

BRIDGESTONE, the Japanese tyre giant, is losing no time over exploiting its $2.6bn acquisition of Firestone Tire and Rubber of the US.

Even before the deal was completed in May, Bridgestone executives were already well advanced with plans for refurbishing and modernising the ailing American group. Last month they made public their plans – a $1.5bn three-year investment programme, which includes the wholesale expansion of three Firestone factories.

The announcement was a sharp retort to critics who suggested that Bridgestone had paid too much for Firestone in the first place, and to those who said that Bridgestone had bought Firestone mainly to cannibalise the US company's marketing network.

The plans highlight the fact that Mr Akira Yeiri, the president, is serious about his aim of making Bridgestone the world's largest tyre maker. They emphasise how rapidly the group is expanding its presence in international markets, even though until last year, it was known as one of the most domestically orientated of Japan's big corporations.

Certainly, news of the investment programme will have sent a shock among Bridgestone's leading rivals, which recently have been investing heavily in expanding capacity and cutting costs, especially in North America.

The world's largest tyre maker is Goodyear of the US, with sales of $7.3bn last year, followed by Michelin of France with $7.26bn. Bridgestone and Firestone together sold tyres worth $6.7bn – not far behind for a company with big ambitions.

Bridgestone's strength is based on its domination of the domestic market where it has a 46 per cent market share. It has profited from Japanese vehicle makers' preference for buying local even in the 1960s when foreign tyres were technically superior.

The company was slow to realise the impact of the overseas expansion of the Japanese vehicle industry. It bought its first US plant, from Firestone, in 1983 and later established a second factory. But it won a small share of the market: the main suppliers to Japanese vehicle plants in North America were US producers.

The rise in the value of the yen from 1985 increased the need to establish production overseas. The yen's appreciation boosted margins greatly at home – helping to raise profits by 49 per cent in 1987 to Y91bn. However, opportunities for increasing sales, especially exports, declined. Indeed, Bridgestone's sales of tyres over the five years to the end of 1987 were virtually unchanged.

The need to build an international presence quickly pushed Bridgestone towards an approach to Firestone, the US company it knew best. Initially, it wanted a partnership – to be secured by buying 75 per cent of Firestone's tyre business. It was forced into a takeover by a counter-bid from Pirelli, the Italian group.

Bridgestone's strength is based on its domination of the domestic Japanese market

The acquisition brought Bridgestone a strong presence in North America and in Europe, to set alongside its position in Japan. Shortly after the deal was completed, the company bolstered its position in a fourth area – Africa and the Middle East – by signing a joint venture for tyre production in Turkey.

The details of the investment plan for Firestone show that Bridgestone intends to expand international tyres sales over the next three to five years. About $1bn of the investment will be made in the North American tyre business. This will beprincipally for expanding output at a Firestone factory in Wilson, North Carolina, by 30 per cent and in Joliette, Quebec, by 40 per cent. Also, Firestone's network of 1,500 MasterCare car service centres will be increased by 300.

Some $300m will go on tyre operations elsewhere, mainly in Europe, including a 30 per cent expansion at a factory in Burgos, Spain. Bridgestone brand tyres will be produced for the first time in Europe there.

The final $200m will be spent on Firestone's non-tyre businesses, including the expansion of capacity in synthetic rubber and fabric and in roofing materials. More than 100 Bridgestone staff, specialising in production, research and development, will be seconded to Firestone to help raise "product quality and productivity."

Meanwhile at home, Bridgestone does not intend any significant capacity increases. It is considering transferring low-margin production to other Asian countries where wage costs are lower.

As it challenges its Western rivals head-on, Bridgestone is placing a heavier emphasis on technology than in the 1970s when it was a late-comer to radial tyres, for example.

In marketing it tries to capitalise on the fact that in 1986, it was favoured by Porsche, the West German sports car maker, which chose Bridgestone tyres for its 959 model, one of the world's fastest production cars. Last year, Porsche approved Bridgestone tyres for use on its all its cars.

Stefan Wagstyl
Tokyo

Akiri Yeiri (centre), president of Bridgestone, announcing his company's decision to acquire Firestone Tire and Rubber Co.

Replacement passenger tyre market in US(%)

Goodyear	16
Firestone	9
Michelin	8.5
Sears	7.5
BF Goodrich	4.0
General	3.0
Multi-mile	3.0
Uniroyal	3.0
Kelly-Springfield	2.5
Cooper	2.5
Dunlop	2.5
Armstrong	2.5
Cordovan	2.0
Dayton	2.0
Bridgestone	2.0
Remington	2.0
Montgomery Ward	2.0
Jetzon-Laramie	1.5
Hercules	1.5
Atlas	1.5
Stratton	1.5
Western Auto	1.5
Monarch	1.5
Kmart	1.5
Pirelli	1.5
Summit	1.5
Centennial	1.0
EMPCO	1.0
Spartan	1.0
Regul	1.0
Cornell	1.0
Sigma	1.0
Others	7.5

Source: Modern Tire Dealer

Smaller players are slowly squeezed as the big three prepare to battle it out

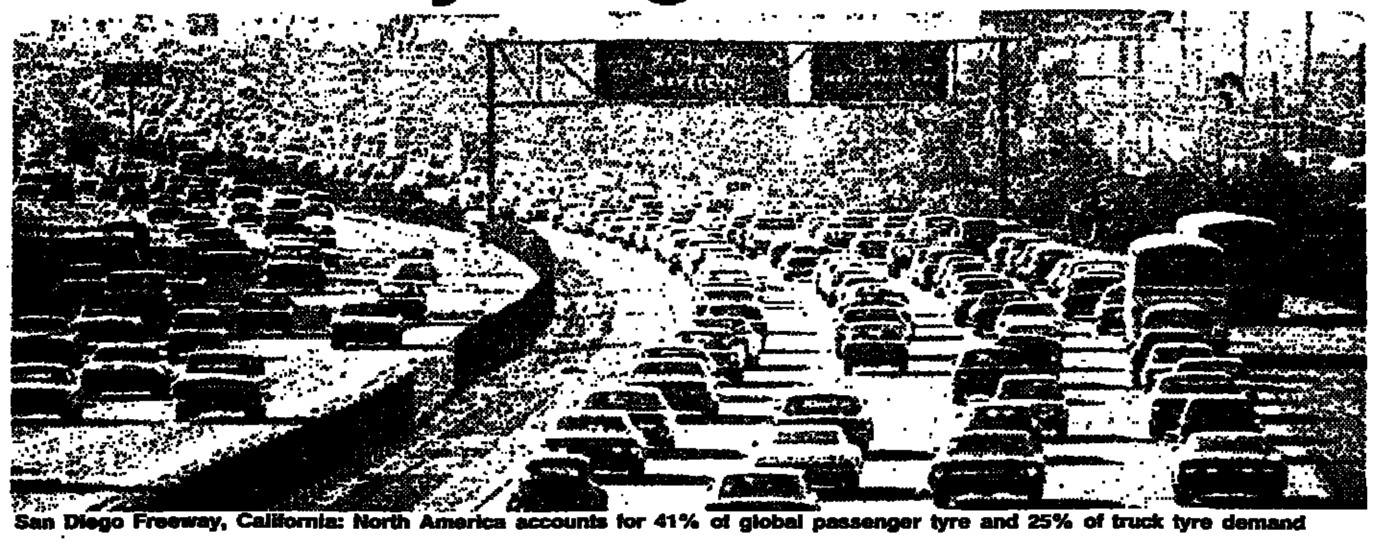
US seen as key to global market

THE STAGE is set for a ferocious battle in the tyre industry following an announcement by Mr Akira Yeiri, president of Bridgestone, that the company intends to become the world's largest tyre maker.

Bridgestone doubled its tyre-making capability this year by acquiring Firestone's world-wide operations. In this market, characterised by little growth and high competition, the small players are slowly being squeezed as the big three, Goodyear, Michelin and Bridgestone, get ready to battle it out.

The world tyre industry, which began the 1980s with plant closures and consolidation, is witnessing a renaissance of sorts, with around $3bn scheduled for investment in North America alone. However, while much of this investment will be used to modernise plants to produce the popular radial tyres, the opening of four new factories will bring on extra capacity at a time when the industry is due for a cyclical downturn.

The stakes are high, and the general consensus is that whoever wins North American will ultimately control the global market for original equipment tyres. North America accounted for 41 per cent of global passenger tyre demand and 25 per cent of truck tyre demand in 1987, according to Goodyear figures.



San Diego Freeway, California: North America accounts for 41% of global passenger tyre and 25% of truck tyre demand

Control of the original equipment market is important to manufacturers, who believe that it leads to control of the replacement market because consumers usually replace tyres with the original brand. However, profit margins for original equipment tyres have been squeezed in the last year.

Actual prices in the sector are a closely-guarded secret. There was a decrease in last year's original tyre prices of around 0.5 per cent, according to reports, after Michelin agreed to sell their tyres to GM for less in order to increase their share of the original equipment market. The other companies had to follow suit and original equipment tyre prices are expected to be even lower for 1989.

The main players in North America have been in the field for generations, but their faces have changed in the last three years. The names still sound as American as apple pie – Armstrong Rubber Co, Firestone, General Tire – but only Goodyear remains in American hands. The rest have been snapped up by foreign competitors seeking a tyre manufacturing foothold in the important North American marketplace.

The first to go was Dunlop, bought two years ago by Japan's Sumitomo Rubber Industries. In 1987 General Tire was acquired by Continental, a West German producer. Then Bridgestone of Japan bought Firestone in May of this year, and one month later Armstrong was acquired by the Italian Pirelli Group.

If Sir James Goldsmith had had his way, even Goodyear would have been in foreign hands. The large tyre company took on a $3.5bn debt load at the end of 1986 to fend off a hostile takeover attempt by the Anglo-French financier.

The latest thrust in the battle for supremacy in the tyre industry came from Bridgestone, which last month announced its intention of spending $1bn on Firestone operations alone, mainly on increasing Firestone's tyre output in its plant in Wilson, North Carolina by 30 per cent and at Joliette Quebec, by 40 per cent – the rest will be spent in Europe and on non-tyre sectors. The company is also adding passenger tyre capacity at its LaVergne, Tennessee plant.

Such a huge injection of capital, combined with Mr Yeiri's statement, was widely seen as a direct challenge to Goodyear and Michelin for the market's number one spot. However, when seen in the context of a three year plan, the expenditure of $1bn is not vastly out of line with what the other manufacturers are spending in North America.

Goodyear has already broken ground at a $320m tyre plant in Napanee, Ontario, in addition to expanding the company's Lawton Oklahoma plant to increase capacity by 12,000 high performance auto radials per day.

Continental is investing $650m in General Tire's plants during the next four years including a $200m truck and bus tyre joint venture with Yokohama and Toyo of Japan. General has been traditionally weak in the truck tyre market.

Pirelli recently announced that it will invest more than $250m over the next four years, with at least $100m earmarked to increase Armstrong's original equipment capacity. According to a spokesman for Armstrong, Pirelli's main interest in North America is to increase its share of the original equipment market for high performance car tyres.

The small tyre producer has traditionally concentrated on the replacement business, with original equipment for tractor and farm equipment accounting for only 1-2 per cent of total sales.

Pirelli Armstrong Tyre Company, as the company will be known from January 1, will probably phase out Armstrong's smaller brands such as the Formula tyres which are used for both light four-wheel drive trucks and high performance cars.

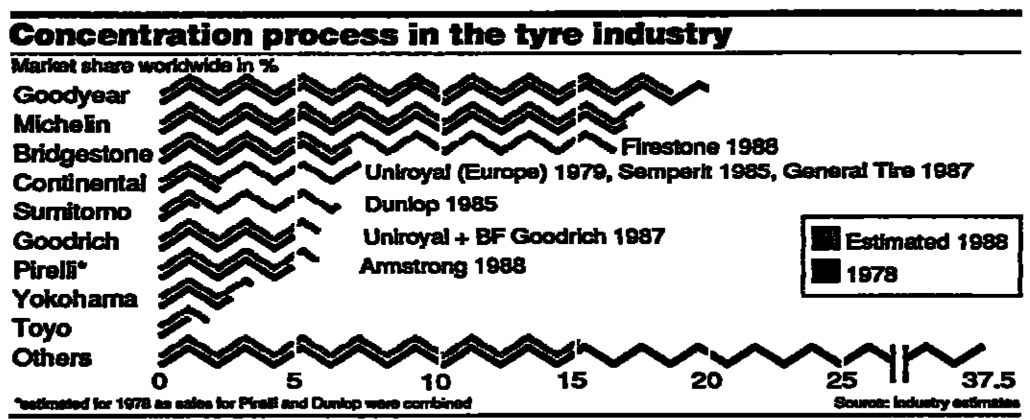
Sumitomo is injecting $100m into a Dunlop plant in Tonawanda, New York, in order to add radial truck tyre capacity. The company is aiming for sales of more than $1bn in North America by the end of 1992. Sumitomo is expected to spend whatever it takes to stay competitive.

Michelin, the company which made its mark with radial tyres before the rest of the industry realised their importance, plans to spend $996m on expansion and modernisation programmes in Canada and the US.

Even ill-starred Goodrich/Uniroyal, which were combined in a leveraged buyout last year and seemed fated to struggle in the highly competitive marketplace, are doing better than expected at the moment. Together they accounted for 19.5 per cent of the domestic passenger tyre market in 1987.

However, confrontation is not regarded universally as inevitable in the industry. Mr Gunter Sieber, sales and marketing director of Continental, believes that co-operation would be more valuable, as Western producers can provide tyre technology and engineering skills beyond current Japanese levels, while the Japanese can provide access to the lucrative Far Eastern markets.

Karen Zagor
New York



Robert Mercer, Goodyear chairman: putting a brave face on events

PROFILE: GOODYEAR

High price of victory

EVEN AS recently as two years ago, Goodyear Tyre & Rubber's leadership of the world tyre industry was accepted almost unquestioningly.

Then came financier Sir James Goldsmith's hostile takeover bid, and Goodyear has had its back to the wall ever since.

The raid by Goldsmith – who was described at the time as "the English knight in shining junk bonds" by an apoplectic Goodyear chairman, Mr Robert Mercer – was beaten off.

But victory came at a very high price, and one on which Goodyear, 22 months later, is still paying the instalments.

The company had to borrow $2.6bn to fund the stock buyback which allowed allowed Sir James and his cohorts – who included Australian entrepreneur Kerry Packer – to ride off into the sunset with a $90m-plus profit in their saddlebags.

However, at the time it was not just the direct dollar cost of repelling the would-be boarders which infuriated Mr Mercer. Of no less concern was that the raid threw sharply into reverse Mercer's strategy of diversifying Goodyear out of what had been heavy dependence on the viciously competitive, low-margin world tyre business, into oil and gas, pipelines, aerospace and even property.

Most of these businesses have now been sold off to help reduce the debt burden, although some 23 per cent of Goodyear's expected turnover of around $10bn this year will still have come from other activities like chemicals.

The sale of Goodyear's biggest plum, a 1,250-mile pipeline, is still to come and, Mr Mercer hopes, will realise around $1.4bn to bring Goodyear much closer to paying off the extra debt by the required 1990.

But what *still* gets him biting his blankets is the events which have followed a contention by Sir James that he did Goodyear a favour by making it concentrate on the "core" tyre business.

For the Goldsmith episode has meant that Goodyear seems now on the point of losing world tyre supremacy, measured by dollar turnover, to Michelin of France – if, indeed, it has not lost it already because of the rising French franc *vis-a-vis* the dollar.

Yet even this is not the most bitter pill for Goodyear to swallow.

If, as some suspect, the weakened Goodyear finds itself in three years' time fighting against being relegated to third place, it will be because Bridgestone of Japan will be making good its own declared intention to become the leading world tyre maker.

And that, in turn, would have been largely made possible Bridgestone's purchase earlier this year of Firestone of the US. The irony of the purchase sum involved, $2.6bn, is lost on no one at Goodyear's Akron, Ohio, headquarters.

Goodyear and 65-year-old Mr Mercer continue to put a brave face on events, despite a slide in profits throughout this year. In October, Goodyear reported nine-month earnings of $293.7m, or $5.13 a share, down from $603.9m, or $9.78 a share, in the same period last year, for which it largely blamed sharply higher raw materials costs, a less favourable sales mix and higher pension costs.

However, last year's figures were made better by $273.6m in one-off gains mostly linked with disposals. Meanwhile, Mr Mercer says the debt picture will also look a lot brighter by the end of this year, with debt down to 63 per cent of capital,

Goodyear seems on the point of losing world supremacy, measured by dollar turnover, to Michelin

compared with 80 per cent in the immediate aftermath of the Goldsmith raid.

By the end of next year, he forecasts, the level will be down to 50 per cent.

That, he acknowledges, is still a lot higher than has been customary in Goodyear's past – "but I'm not sure that the old measurements are appropriate any more. Our competitors carry high debt-to-equity ratios, and it doesn't seem to bother them."

He makes abundantly clear that despite recent events, Goodyear has no intention of giving up what it still sees as its world leadership without a stiff fight – in particular to Bridgestone.

Thus, after some early post-raid cutbacks, it has resumed a relatively high level of both research and development spending and capital investment – over $270m and $665m respectively in the current year.

Mr Mercer readily acknowledges that Bridgestone is to be taken very seriously in its bid for world number one spot, but insists that Goodyear can fend off the challenge "as long as we keep our research and development focused."

Despite Bridgestone's rapid rise from being a producer whose products were still being treated contemptuously by its Western rivals in the late 1970s, Mr Mercer maintains that its technology base is still not broad enough to depose either Goodyear or Michelin. This is despite Bridgestone's major publicity coup in having its tyres made original equipment on Porsche's near-200mph 911 'supercar' – "it was the most expensive supply contract ever for Bridgestone – technically, they simply can't do it across the board."

As part of its recovery strategy, during the summer, Goodyear simplified its structure into two divisions, tyres and general products, the better to control global operations which include nearly 50 tyre plants in 30 countries .

It is investing in a number of new tyre plants and plant modernisations, not just in the US but in Canada, Korea, Greece and Turkey.

In the US itself, one particularly notable investment out of three new projects going on is a doubling of capacity, to 12,000 units a day, for high performance car tyres at Lawton, Oklahama – almost the one sector of the US car tyre market which is not only growing rapidly (8 per cent per annum in an otherwise almost static market), but where competition is more technology-led than price-led. Goodyear claims already to dominate this segment, with more than 85 per cent of the original equipment side and nearly a third of the replacement sector.

Worldwide, Goodyear claims to have some 20 per cent of the total market for car, truck and replacement tyre market, still marginally ahead of Michelin although it will be some months yet before precise figures are likely to be identified.

While not giving market share breakdowns itself, it appears not to quarrel with the estimate of the respected industry publication, European Rubber Journal, that it has a 33 per cent share of the original equipment market in North America – where 40 per cent of all the world's tyres are purchased – and a 27 per cent share of the replacement market.

The company is well aware of the growth prospects offered by the rise in East Asian car and truck production. Quite apart from the $110m Korean plant, where 3m radial car tyres a year are to be made, Goodyear has been strengthening its presence in Japan.

Its shares have been traded on the Tokyo exchange since the start of this year, and has installed a corporate vice-president full-time in Tokyo with the aim of drumming up more original equipment business. It already supplies tyres to Hyundai of Korea, and to Nissan, Mazda, Toyota and Isuzu – although these are from Goodyear's European plants and are installed only on products being exported by the Japanese vehicle-makers.

"I think we can still move into Japan in a much larger way," Mr Mercer observes.

John Griffiths

Stuart Marshall explains the mysteries of tyre manufacture and . . .

Makers win search for automation

THE PNEUMATIC tyre has been called the last hand-made component to be incorporated into a high-volume product.

This was true for 50 years, but is rapidly becoming an outdated notion as the rubber industry hastens to automate the mechanically-assisted, but still labour-intensive process of building a tyre manually.

To an untrained eye all tyres look pretty much the same – round, black and not very interesting. However, underneath the black exterior is a variety of sub-assemblies and components made from steel, textiles and rubber compounds.

All have to be assembled with a degree of accuracy that is both surprising and demanding in view of the instability of so many of the materials involved.

The effect of this instability is magnified when the assembled "green" tyre goes into a steam-heated mould. It stays there for perhaps 30 minutes if it is a car tyre; for several hours if it is an earthmover tyre weighing two tons or more.

While in the mould, the still sticky rubber compounds are vulcanised into tough and durable materials with precisely calculated physical properties. The tread pattern and sidewall markings are moulded on and, inevitably, some movement takes place within the tyre as the rubber compounds flow under heat and pressure.

It is for this reason that one obvious advance in tyre design has proved unworkable. This is the insertion of a coloured layer of rubber between the outer and inner tread layers so that illegal wear would be visible at a glance. However, the coloured layer would flow enough during vulcanisation to make the essential plus or minus one millimetre tolerance impossible to achieve.

As growing robotisation of car assembly has demonstrated, removing the human element from repetitive and often disagreeable tasks has eliminated many of the errors.

In tyre production, mistakes by operatives at the tyre building stage – for example, misalignment of the belt assembly of a radial tyre or a poorly made splice in the casing plies – can result in the finished product being fit only for scrap. Misaligned belts make a tyre "run out" to one side. Poor splicing may cause "out-of-roundness," with an in-service defect of incurable imbalance.

So the move towards automatic production of what had always been a hand-built vehicle component has been brought about as much by a desire for greater uniformity (dimensional consistency) as to cut labour costs.

Working conditions in the industry have also improved considerably over the years. However, building and vulcanising tyres is not an attractive occupation compared with less physically demanding jobs in cleaner surroundings. So, apart from improving product quality, the industry also expects automation to ease recruitment problems, especially in areas of high employment.

Automation of tyre production began gradually. Among the first steps were computer control of the mixing of the raw rubber with other materials such as carbon black, oils and chemicals, including accelerators. These ensure that the finished tyre has the maximum resistance to abrasive wear, bad weather and sharp items that may cut the tyre and performs on the road to specification.

Extruder lines, which produce the long strips of rubber that make tread and sidewalls, and the calenders that rubberise the plies from which casings and belts are built, also became computer controlled. So did the bias cutters, which chop sheets of rubberised fabric or steel cord into lengths for assembly into tyre casings on the building drum.

The casing assembly stage was the last to be tackled. First, new types of manually-operated tyre building machines were introduced which were fed continuously with tread and casing components instead of receiving them in batches on trolleys.

The next step was to replace the tyre builder by computer-controlled equipment. It was at this point that tyre manufacturers began playing their cards close to their chests.

With the exception of secrecy-obsessed Michelin, which felt it was more advanced than its competitors and wanted to keep any breakthroughs to itself, visitors had normally been welcomed at tyre factories in Europe, the US and Japan.

Goodyear's plant at Lawton, Oklahoma, where the world's largest tyre maker began in the late 1970s to develop what is believed to be a prototype of the minimally-manned tyre factory of the future, was one of the first to adopt Fort Knox-style security.

Entry there is still on a "need to know" basis, which means that no-one from outside the company gets in, and very few from inside Goodyear, either. Even most of Goodyear's 60-year-old British plant at Wolverhampton, with £30m recently invested in new equipment, is now off-limits.

Both Goodyear and Michelin are reputed to be manufacturing considerable volumes of car and truck tyres without significant human intervention. Pirelli, one of the few tyre companies to have commented publicly on its progress towards automating tyre production, is known to be doing so. Two years ago, Mr Carlo Banchieri, director of tyre products, spoke of an industry going through the third of four phases of a transformation that had started in the 1970s.

First came product innovation (tyres such as Pirelli's ultra-low profile P6 and P7). A switch in emphasis to improved production efficiency followed in a few years. The move towards automating manufacture (now underway) was a natural consequence, though it would take some years to put into effect. The fourth phase, in the early 1990s, would bring new automatically-produced tyres offering higher performance standards.

Pirelli is now making, on automatic machinery of its own design and manufacture, a wide range of car tyres, including ultra-low profile, high-performance types; and truck tyres including low-profile designs.

All Pirelli tyres – and unquestionably those of all other major manufacturers – are now designed with automatic production in mind. "They are being planned from the outset for automatic manufacture, from the Banbury mixer to the vulcanising mould, just as today's cars are designed for assembly by robots," said Mr Banchieri. "In future, only very limited production tyres like those for ultra-fast cars such as Ferraris, or for use in rallies, will be built by hand."

Continued on Page VI

Conflicting demands of the car tyre

THE TWO biggest advances in car tyre design have been the commercialisation of radial ply construction and the introduction of the tubeless tyre.

The concept of a tyre with separate reinforcement for the casing and tread was patented by two Britons, Christian Gray and Thomas Sloper, in 1913, but it lay dormant until 1948.

When Michelin sold the first steel-belted "X" radials for cars in 1948, it was the start of a revolution of the industry all over the world. Originally, Michelin's idea was to improve mileage on Citroēn traction avant cars, which were wearing out their front tyres too quickly.

The motor industry was at first reluctant to buy a tyre that cost twice as much as a cross-ply and caused cars with unmodified suspensions to ride badly. However, the mileage, steering response and cornering grip benefits of steel radials were so great that they became standard original equipment on the great majority of West European cars by the mid-1970s.

The steel radial tyre of today is as comfortable and forgiving as the first ones were hard riding and liable to let go suddenly if pressed too hard on a fast bend. This refinement has been achieved by constant improvements to the materials (rubber compounds, steel and textile plies), by manufacturing methods and, last but not least, by computer-aided design. Nowadays, a tyre can be created on a computer screen, matched up to a make and model of car and the designer will have a good idea of how it will perform.

The most obvious change to tyres in the last 10 to 15 years is that they have become much fatter. It was always known that making the cross-section of a tyre wider than its height sharpened steering response and increased cornering grip. The problem was that it also made it less shock-absorbent; you felt all the potholes and bumps.

Pirelli scored a big success in the mid-70s with its ultra-low profile (ULP) P6 and P7 radials for fast and sporty cars. By paying careful attention to the design, materials and tread pattern, it combined grip like that of racing tyres of the 1960s with acceptable ride comfort.

Now, even cheap family cars may have 70 per cent height/width ratio tyres. Sporty hatchbacks use 60 series and really high performers may have tyres as low as 40 or even 35 series.

All manufacturers now produce ultra-low profile tyres, though, in Europe, Pirelli remains the brand leader. In Italy, it has a 60 per cent share of the market in the profitable HR, VR and ZR speed-rated ULP tyre segment. (These are tyres capable of sustained speeds in the up to 130 mph, over 130 mph and far in excess of 130 mph bands.) In Britain, Pirelli's share of this segment is 45 per cent, in France 35 per cent and in Germany, Spain and Scandinavia, 25 per cent each.

The ULP tyre sector continues to grow. European sales of HR and VR speed-rated ULP tyres have risen from 22m units to 32m units in the last three years and are forecast to reach 38m by 1991. The highest-performing, squattest-shaped tyres in VR and ZR speed ratings have gone up from 14m units to 22m units over the same period and sales by 1991 will total 30m.

Even though there is a possibility that the Green movement will force through an autobahn speed limit in Germany, it will not stop the HR, VR and ZR ultra-low profile tyre in its tracks. Apart from being able to withstand very high speeds, they provide better handling, steering response and road grip than lower-rated tyres.

At the same time as Pirelli launched its enormously successful P6 and P7 in 1976, Michelin tried to persuade the automotive industry that a ULP tyre needed a different kind of rim profile. Its TR (tension repartie) version of the "X" tyre used a wheel that allowed the sidewall to flex unstressed by contact with the rim flange.

However, the TRX wheel would take no other tyre because, to avoid confusion in the field, it was of a non-standard diameter measured in millimetres. (All tyres throughout the world are made to inch diameters. Their cross-sections are measured in inches if cross-ply; in millimetres if radial.)

The automotive industry is reluctant to adopt any component that does not conform with existing standards and after trying hard to persuade the world it was the only company in step (as it really had been with the steel belted radial "X") Michelin more or less gave up on TRX.

Any tyre is a compromise between conflicting demands. Ultra-low profile tyres give a good ride on reasonably smooth roads, but can feel and sound rather harsh over broken surfaces. This is because their short sidewalls are less able to absorb shocks than the taller sidewalls of narrower tyres.

At the urging of the car makers, the tyre manufacturers are now offering fat HR and VR tyres that trade off a little handling to obtain a softer, quieter ride.

Michelin, with its MXV2, Pirelli, with the P4000, and Goodyear, with its Eagle NCT2 are now supplying these types of tyres for fitting as original equipment to cars such as the Saab 9000 and Alfa Romeo 164, well ahead of their availability on the replacement market.

Japanese manufacturers (especially Bridgestone) have become very active in the high-performance sector. Bridgestone spent an estimated $20m on developing a 17-inch RE71 ULP tyre for the Porsche 959, capable of almost 200 mph. The reward was 100 per cent of the original equipment business before Porsche's traditional supplier, Dunlop, came up with a suitable tyre.

Now, Bridgestone tyres are perceived as being equal to, or even better than, Europe's best and it has won original equipment contracts from Audi (for the new V8) and from Porsche (for the 911 Carrera 4). Technology that first saw the light of day in the special tyre for the 959 is now being incorporated in many Bridgestone high-performance tyres.

The most important component of any tyre is the air inside it. Lose the air and the tyre becomes a useless hunk of rubber, steel and string. Which is why, since the pneumatic tyre was invented 100 years ago by John Boyd Dunlop, a Belfast vet, people have been trying to find ways of making it work without any air. Of all the hundreds of ideas patented, none has been completely (and that means commercially) successful.

The tubeless tyre is much less likely to go down suddenly when punctured than a tubed type. This, and the fact that it is quicker and easier to machine-mount on the wheel (and thus cheaper) hastened its adoption. It is now standard equipment on all but light on-off road cars.

However, the tyre industry believes that, eventually, the car makers and their customers will want to rid themselves of the risk of having to change a

Continued on Page VI

. . . how specification and performance must vary according to use

Special needs of high speed and swampy terrain

ROAD TRAFFIC would clearly be impossible without pneumatic tyres. So would aviation as we know it. The mechanised farm runs almost entirely on air-filled rubber, as do construction sites.

Some trains are beginning to run on tyres, such as the quiet, fast-acceleration Metros of a few lines in Paris and in other conurbations worldwide. Even ships use tyres in a small way. The impact of a super tanker coming alongside a jetty may be cushioned by fenders made of a series of free-rolling earthmover tyres.

The Titans of the tyre world are up to 10 feet high and weigh as much as two tonnes apiece. They are generally referred to as earthmover tyres, though the term takes in everything from relative midgets of 1.5 metres in diameter to the giants used on 200 tonne load capacity mining trucks running on firm haul roads.

They are mainly of crossply construction, though the all-steel radial is steadily increasing its market penetration.

Its advantages are lower fuel consumption and, due to its large and stable footprint, improved flotation and traction. Leading manufacturers of earthmover tyres are Goodyear, Bridgestone and Michelin.

Although agricultural tractor tyres, with their bold, cleated tread patterns, look similar to earthmovers, their characteristics are different. An earthmover tyre has to carry extremely heavy loads, perhaps over quite rough terrain, resist tearing when it runs over sharp rocks and have enough traction to keep the machine moving on low grip surfaces.

A tractor drivewheel tyre must also provide as much traction as possible to maximise the acreage of farmland it can plough in a working day. However, it must also minimise the damage caused to the soil by compaction, which affects soil fertility and reduces cropping potential.

Radial ply tractor drivewheel tyres, first introduced in the 1960s by Kleber-Colombes, then an associate company of Michelin, reduced wheelspin and allowed a greater acreage to be tilled at lower fuel cost. The flexibility of their sidewalls permits lower inflation pressures, which further increase contact patch size compared with that of a similar crossply tyre. The larger the footprint, the lower the ground pressure and the less the compaction damage to the soil.

Exceptionally wide tyres would increase flotation and reduce compaction still further, but there has been a snag. Until recently the only kinds available were rubber based and of conventional crossply construction.

The principal makers were Goodyear and Firestone. Although they would keep specialist vehicles moving on swampy terrain, they were not strong enough for general farm duties, such as turning in stubble with a 150 horsepower tractor and multiple furrow plough.

Fitting standard tyres in twin or triple formation was the normal answer, but new designs have emerged in the last two years. Michelin has introduced a new range of low ground pressure tyres with casings strong enough to withstand the rigours of ploughing and cultivating when mounted on a 150 horsepower, 4x4 tractor. Two may also be used side by side.

The other answer has been provided by the Austrian firm, LIM Kunststoffe Technologie, the injection moulded polyurethane tyre pioneers. Perhaps finding the competition too strong in the car tyre field, LIM has recently concentrated on reaction-injection moulding large and very wide low ground pressure tyres for farm tractors.

They have some radial and circumferential reinforcement, which is laid automatically in the mould before the first shot is injected.

Extensive tests by the British National Institute of Agricultural Engineering, Silsoe, Bedfordshire, and at West Germany's Technischer Uberwachungs-Verein (TUV), are said to have shown them superior to rubber-based equivalents for reduced compaction and for maintaining traction under high torque loadings.

Small volume production started more than a year ago. LIM says several hundred sets of the polyurethane tyres in service in West and East European countries are proving very successful. When production capacity allows, LIM may start reaction-injection moulding normal profile farm tractor and even giant earthmover tyres.

Tyres used for load carrying and guidance on underground trains are of radial construction and owe much to all-steel truck tyre technology. Because of their controlled operating environment, they do a high mileage before replacement. Michelin, a pre-World War II pioneer of pneumatic tyred trains, once had the Metro market almost to itself. However, Bridgestone has become active in the last few years, winning a recent contract for 5,200 tyres to be used on Mexico City's 114 km subway.

Aircraft tyre manufacture is dominated by Goodyear, with a claimed 55 per cent market share, followed by Michelin, which is in the process of acquiring the formerly independent major producer, B. F. Goodrich. Bridgestone is reckoned to be the number three manufacturer. Unlike most other areas of tyre usage, in aviation the crossply or bias tyre is still king.

Michelin introduced an Air-X radial ply tyre about five years ago, first for military aircraft and then for civil use. It has been approved for the European Airbus. Michelin claims Air-X's greater load-carrying capacity allows smaller, lighter tyres to be used to replace crossplies and that the weight saving leads to average fuel savings of $4,000 per Airbus each year.

Retreadability is also said to be better with all-steel radials than with multiple textile ply bias tyres. This is of crucial importance to airlines who may retread a landing wheel tyre many times over, providing the casing remains in sound condition.

The radial's lower rolling resistance is almost a disadvantage in aircraft applications because it makes more wheel and reverse thrust braking necessary when landing. As the radials cost nearly twice as much as aircraft crossply tyres, not all operators are convinced of the former's economic advantages.

By road vehicle standards, aircraft tyres have to withstand gross overloading. While a juggernaut lorry tyre carries a maximum of about three tonnes, a jumbo jet tyre of comparable size is carrying 20 tonnes as the loaded aircraft with full tanks taxies slowly to the runway.

On landing, the smoke from the tyre as the stationary wheel is instantly spun up to high speed looks dramatic but does no harm to the tyre's casing because the wings are still taking the plane's weight.

The drive to give hauliers quieter trucks

TRUCK TYRE buyers are highly conservative people. Only one thing interests them — cost per mile.

That figure reflects many factors: the initial cost of the tyre; the number of miles it runs before it has to be recapped, remoulded or — perish the thought — scrapped. The probability of the casing being acceptable to a retreader for reconditioning, ideally more than once, is important. So, too, is the tyre's overall reliability, despite adverse operating conditions, possible overloading or similar abuse.

When truck operators find a brand and type of tyre that gives them a lower cost per mile (including the cost of time lost on the hard shoulder while changing a wheel) than any others, they stick with it. That applies not just to replacements but to the original equipment they specify when ordering a new vehicle. Truckers, unlike motorists, are in a position to tell the vehicle manufacturer exactly what tyres they want the factory to fit.

So the rubber industry has to work hard to convince the road haulier that a new tyre it has developed at great cost really is *everything it is claimed to* be. Often, to the industry's chagrin, the haulier is unimpressed and stays with what experience has shown will do a good job, even though the tyre company knows (and swears) its new product is better.

One can imagine the fight the industry must have had in the 1920s persuading the heavy haulier to give up solid tyres in favour of the new-fangled pneumatics.

Solid tyres continued to be used well into the 1930s on lorries, though car tyres had been pneumatic almost from the beginning of the century. Solids still survive for limited, mainly industrial, applications. Look at the wheels on the extending piers at Heathrow Airport. They have solid rubber truck-type tyres because nothing better has yet been designed for this specialised, low-speed application.

Once giant pneumatics came into general use, the crossply high-pressure tyre ruled, little changed and unchallenged, until Michelin started the radial revolution just after World War II.

After some fairly small-scale production of crossply truck tyres with casings made, not from textile plies but from twisted steel wires, the all-steel radial emerged. Its casing was made of a single layer of thin steel cables, laid at 90 degrees to the rim or radially in relation to the wheel hub.

Running around the circumference of the tyre was a belt, also made of steel wires, positioned with the layers at an angle to each other. Its function was to brace the tread, which rolled over the road in the manner of a caterpillar track, largely unaffected by sidewall deflection.

Because there were no multiple layers of textile cords in the casing, creating internal friction due to the tyre's shape changing as the lorry moved, the Michelin steel radial ran much cooler than a crossply. Its tread wore much more slowly and fuel consumption was improved — by more than 5 per cent on a multi-axled vehicle despite higher running speeds.

At first Michelin had a manufacturing monopoly of the steel truck radial, which was notoriously difficult to produce in volume to high standards of uniformity. Its price was a deterrent to hauliers who thought of initial cost more than cost per mile, perhaps because so many of their tyres were damaged beyond repair on rough construction sites long before the tread had worn away.

However, other tyre manufacturers gradually acquired the skills and equipment (and, in some cases, licences) to make heavy-duty steel radials. The US tyre industry and its trucker customers stood out against the expensive but potentially more economical steel radial until growing volumes of imports persuaded them to change their mind. US tyre companies found themselves importing radial tyres and manufacturing technology from their European subsidiaries.

Even now, with Western Europe virtually 100 per cent committed to the all-steel radial for long-haul, heavy transport, the crossply truck tyre still lives on in the US, though its market share steadily diminishes.

Recent trends in steel truck radial design have included the extra-wide (super single) tyre that replaces two narrower tyres used in dual formation (twin tyres). Advantages claimed include weight saving, which allows more freight to be carried, and eliminating the risk of stones being trapped between the inner sidewalls and flung out at following traffic.

Truck tyres, once universally of 100 per cent aspect ratio (as tall as they are wide in cross-section) are becoming lower. Pirelli and Michelin were the first to introduce squatter all-steel radial tyres for transcontinental trucks, claiming even longer life, cooler running and lower fuel consumption. Other major tyre producers have followed suit.

Potential continuous operating speeds are also increased to as high as 81 mph, which other road users may regard as a mixed blessing. Vehicle handling and stability are improved and because the squat tyres are mounted on larger diameter wheels to maintain the same rolling radius as before, there is room for bigger brakes with a freer flow of cooling air around them.

Much attention is now being focused on reducing tyre noise to meet EC targets for quieter goods vehicles.

One result of this campaign has been to confine boldly tread-patterned tyres to the drive axle only and a modern five- or six-axled maximum weight truck may now have three different kinds of tyres.

The steering axles will have tyres designed to wear slowly and evenly on the shoulders; the drive axle tyres will have special patterns and rubber compounds to resist the enormous abrasive wear caused by transmitting up to 450 horsepower on to the road surface; and the three-axle bogie of the trailer will have plain-patterned tyres which are required only to run quietly and reliably and to resist scuffing wear on sharp curves.

WORLD TYRE INDUSTRY 6

John Griffiths explains why 1992 is not such a significant date for the tyre industry, but...

Europeans have conflicting views of market growth

MENTION 1992 to senior executives of most major tyre makers operating in Western Europe and, unlike those in some other industries, the majority response is: "So what?".

The reaction is not particularly one of complacency. It is more, as the chief executive of Sumitomo-owned SP Tyres (UK), Mr Gerald Radford puts it, "because we already operate as if the European Community is a single market".

He does not exaggerate. Companies like Michelin, Sumitomo, Goodyear and Pirelli have subsidiaries, and several manufacturing plants each, in most of the major European markets.

The allocation of output, both by volume and product type, is very flexible in its pursuit of maximising economies of scale and readily swayed by factors like exchange rates.

Pirelli, for example, exports more than 40 per cent of production from its UK plants - the net benefit in balance of trade terms being markedly reduced, however, by substantial imports from its Continental plants.

Indeed, inter-trading within the major players is emerging as a potential source of concern to some senior Commission figures in Brussels.

This is not so much the case where it involves subsidiaries inside the Community. The worries relate more to the possibility of increasing net imports to the EC from a growing network of plants and joint ventures being established in the developing countries – particularly Pacific Rim countries – by the industry majors.

In the near term, the main *fear of Commission officials* is that, as the tyre industry follows the motor industry itself into globalisation, investment that may otherwise have gone into modernising the industry's European base is being diverted to lower labour cost countries.

EC TYRE OUTPUT 1984-1992			
Units 000'S	1984	1987	1992
COUNTRY	ACTUAL	ACTUAL	FORECAST
BEL/LUX	5405	2443	2950
DENMARK	–	–	–
FRANCE	48110	54380	65200
GREECE	749	1200	1500
IRELAND	1802	2033	2772
ITALY	27386	32732	33710
NETHERLANDS	3552	4190	4905
PORTUGAL	2219	2767	3984
SPAIN	18900	22534	23600
UK	24760	27932	28877
W. GERMANY	41036	46900	48450
TOTAL	173919	197211	213248

Source: Industry estimates

Further off, however, they can see Michelin, as just one example, finding irresistable the temptation to exploit the cost advantages of a recently-begun joint venture in South Korea by importing large volumes to Europe.

Eventually, they fear, Europe could also face a wave of imports from yet lower cost countries such as Thailand, whose vehicle tyre-making capacity is also now undergoing development.

In the trend towards globalisation, investment that may have otherwise have gone into modernising the European base is being rdiverted to lower labour-cost countries.

Market analysts like John Archer of London-based consultants PRS suggest that the European-based industry may also be skirting the investment issue, and potentially storing up trouble for the future, by intertrading between large groups.

Rather than add capacity in Europe, for instance, Goodyear and Firestone in the past have made tyres for each other, although for how long this practice may continue in the wake of Firestone's takeover by Bridgestone of Japan – and Bridgestone's declared intention to invest $300m in expanding capacity by 30 per cent at Firestone's Burgos plant in Spain - is another question.

To what extent these concerns about investment are justified remains debatable.

Certainly, a move by an increasing number of manufacturers to switch their West European plants to seven-day working is evidence of a desire to squeeze out maximum output before committing themselves to new capacity.

This is partially understandable, for while demand for tyres is currently exceeding supply, some manufacturers insist that it is by not such a huge margin to justify immediate new investment on the scale now going on in North America and parts of the developing world.

Some of the companies, like Continental AG of West Germany, can also argue that *they are investing significant* amounts anyway.

Continental's sales and marketing director, Mr Günter Sieber, says his company is investing or has planned nearly $1bn for upgrading and maintenance of its European operations. Among other companies, Pirelli is in the middle of a $185m investment programme in the UK alone.

Pirelli's Mr Grandi also asserts that part of the reason for investment in more capacity being slower than some might expect is improving productivity at existing plants, which he says is currently running at about 10 per cent a year.

He also takes a conservative view of growth in the market itself, suggesting an annual growth rate of 1 per cent: "Growth in the motor industry itself will level off", he predicts.

This may be excessively cautious, however. In a recent study entitled *The World Car Industry to the Year 2000*, the Economist Intelligence Unit sees a rise in world car production alone to around 45m units by the turn of the century, compared with 44m now, and in the world's total car population to just over 549m compared with 369m in 1985.

Within this total, Western Europe's car population will rise from 120m in 1985 to 166m by the year 2,000, EIU predicts.

The sector in which investment in Western Europe is heavy, however, is that for low- and ultra-low high-performance car and truck tyres.

EC OUTPUT BY TYRE TYPE (units 000's)					
COUNTRY	CAR	CV	AG	M-BIKE	TOTAL
Bel/Lux	1594	849	–	–	2443
Denmark	–	–	–	–	–
France	48638	5742	–	–	54380
Greece	769	308	123	–	1200
Ireland	2033	–	–	–	2033
Italy	26407	2974	463	2888	32732
Netherlands	3500	490	200	–	4190
Portugal	2049	666	32	20	2767
Spain	19323	2709	–	402	22534
UK	23793	3924	150	165	27932
W. Germany	42100	4800	–	–	46900
TOTAL	170406	22362	968	3475	197211
%	86.4	11.3	0.5	1.8	100.0

Source: Industry estimates

The attraction is an obvious one. These are products sold on performance first – roadholding, handling, ride and durability – and price second. They offer, for the moment at least, relatively high profit per unit and their share of the car original equipment market is growing fast in a region which has probably the world's most sophisticated and demanding drivers.

Such tyres are expected to account for about 50 per cent by the mid-1990s, with demand in the replacement market also burgeoning by then.

The plants to produce them, almost irrespective of manufacturer, are among the world's most automated – but, stresses Mr Grandi, for reasons of quality, not capacity. Like Europe's other leading tyre makers, he stresses that "it is quality which has become the highest priority".

The problem with the high-performance tyre sector, of course, is that it is becoming – like the others – much more crowded with very competitive products. Should the current steady growth in vehicle and tyre markets falter and tip the capacity balance once more, the tyre makers once again could find their *margins* under heavy pressure from the vehicle producers.

In these circumstances, suggests PRS, there could be a further shake-out among the smaller European producers which could see virtually all of them disappear.

It does not even expect the takeover of Firestone by Bridgestone to herald an upsurge of Japanese-owned tyre company sales into Western Europe. This is particularly so now that Japanese vehicle makers are said to be having second thoughts about stampeding *en masse* into European vehicle production before the single market is due to come into effect in 1992.

Instead, PRS, which has recently concluded a substantial study on the industry, concludes that Michelin will strengthen its hold on the West European market, with a rise in estimated market share from 37 per cent to 41 per cent between this year and 1988.

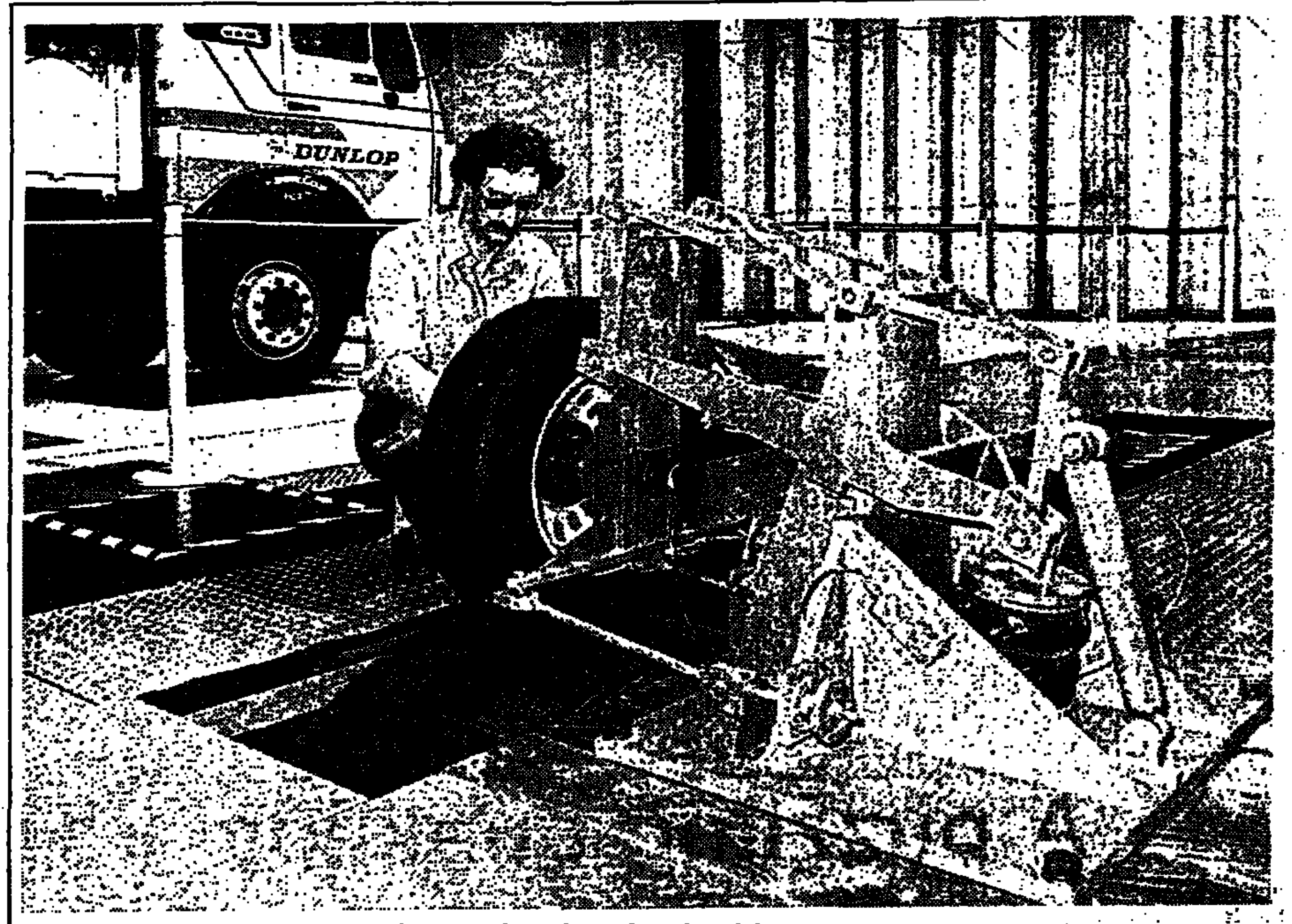
PRS provocatively presumes a merger between Continental and Pirelli in predicting a combined market share of 27 per cent in 1992, compared with an estimated 14 per cent now for Continental and 13 per cent for Pirelli.

It sees Goodyear increasing its share to 15 per cent, from 13, over the same period but expects Firestone's share to drop back to three per cent from four, despite its recently-announced Spanish investment.

Within the total market, about a five per cent share is taken by the various industries of the Comecon states, imports of which are concentrated heavily in the "commodity" vehicle tyre sales at the cheaper end of the replacement tyre markets.

Ironically, much of this Eastern bloc production, which shows every sign of increasing its penetration into Western Europe, is the result of earlier technology transfers from West European producers like Pirelli.

Tyres for all weathers: Continental's latest model for icy conditions



Sumitomo's new dynamics laboratory for measuring noise and comfort of the tyre

IMPORTS BY EC STATES 1987 '000 units							
COUNTRY OF ORIGIN	US	JAPAN	S.KOREA	TAIWAN	OTHER	TOTAL	
W. GERMANY	20,151	253	2,124	450	41	3,235	26,2254
FRANCE	12,592	31	556	185	270	1,036	14,670
UK	8,851	152	599	658	115	3,768	14,143
ITALY	9,623	80	7	125	679	917	11,431
NETHERLANDS	5,524	203	290	143	181	1,805	8,146
BELGIUM/LUX	5,751	203	306	81	78	269	6,690
SPAIN	2674	7	68	45	0	171	2,965
DENMARK	1,840	20	298	104	30	378	2,670
IRELAND	666	1	38	64	4	100	893
PORTUGAL	836	2	1	43	38	19	939
GREECE	657	35	46	56	28	97	919
TOTAL	69,165	989	4,333	1,874	1,464	11,795	89,720

Source: official trade statistics

DESTINATION OF EC EXPORTS (1987 '000 UNITS)							
EXPORTS FROM:	EEC	US	JAPAN	S. KOREA	TAIWAN	OTHER	TOTAL
FRANCE	22,220	3,188	230	–	48	7,149	32,835
W GERMANY	16,229	2,602	1,175	3	47	6,432	
ITALY	8,221	2,154	625	–	14	2,601	13,615
UK	9,762	1,104	178	1	5	2,362	13,412
SPAIN	4,470	2,722	703	15	28	2,061	9,999
NETHERLANDS	5,404	17	1	–	3	1,349	
BELGIUM/LUX.	4,328	131	12	3	632	5,106	
IRELAND	1,206	27	–	–	–	817	2,049
PORTUGAL	955	27	–	–	–	191	1,173
DENMARK	515	5	1	–	–	75	596
GREECE	227	75	7	–	–	66	375
TOTAL	73,536	12,052	2,932	19	148	23,735	112,422

Official Trade Statistics

Profits upsurge for Sumitomo of Japan

Reaping the rewards of overseas acquisitions

IN THE past to years, Sumitomo Rubber Industries – Japan's third and the world's sixth largest tyres group – has begun to reap the rewards of its decision to buy the European Dunlop tyre activities for $450m at the end of 1984 and the US Dunlop Tyre Corporation for nearly $100m at the end of 1986.

A short time ago, following an initial profits upsurge in 1987, it announced an 81 per cent jump in interim pre-tax profits to Y4bn($30m) on a total turnover up by 13 per cent at Y105bn, (although this includes sales of some non-tyres products such as sports shoes).

Part of the reason for the growth was strong replacement tyre business in Japan itself; but there was also a notable contribution from the US tyre activities, while productivity improvements are also making their impact in Europe.

The company is now forecasting pre-tax profits of Y7.5bn for the year on sales of Y215bn.

Sumitomo is benefitting from its overseas acquisitions in two ways: by providing local production in the world's two most important markets – North America and Western Europe – they are saving it from the foreign exchange losses it would otherwise have incurred on direct exports because of the long and continuing appreciation of the yen.

At the same time, the lower cost of imported raw materials because of the yen has served to increase profit margins on its domestic production.

Sumitomo's takeover of Dunlop's tyre interests has not marked the end of its search for further, albeit modest, links in Europe. At the beginning of this year, SP Tyres, Sumitomo's UK subsidiary, set up a joint venture company with Nokia , the Finnish industrial group, under which joint product development is being undertaken, together with production of Dunlop winter tyres by Nokia in Finland, and Nokia truck tyres by SP Tyres at its Fort Dunlop plant in Birmingham.

It compliments other collaboration in Europe, with Trelleborg Tyres of Sweden, again through SP Tyres, and Sumitomo's own production in Europe which comprises two plants in France, two in the UK and two in West Germany.

Sumitomo is active on other fronts, not least in seeking to tap into the burgeoning vehicle production of emerging Pacific rim countries like Taiwan, where it already has manufacturing, retailing and technology transfer links.

However, if it has any plans for a further dash for growth through acquisition, like Bridgestone's purchase of Firestone, it is playing it is keeping them remarkable close to its chest.

Sumitomo executives indicate, instead, that their priorities remain further continue to develop the products, productivity and profitability of their existing facilities.

Developments at their European plants already indicate substantial success.

While Sumitomo has been helped by the bulk of the savage job cuts made in European – and particularly UK – work forces taking place before it acquired the company, it is some measure of the transformation that has taken place since then that SP Tyres UK's 1984 and 85 combined losses of £37m was followed by break-even in 1986 and "a small profit" in 1987.

It says the positive trend has continued this year, although it gives no precise details as only consolidated figures are reported.

A similar tale is being told at *Sumitomo's other plants on the Continent*, for example at Montlucon in France, where former heavy losses have also been turned into modest profits.

In job terms, the costs have been high, however, when measured from the start of Europe's really large over-capacity problems at the end of the 1970s. Once, recalls SP Tyres UK's chairman and managing director, Mr Gerald Radford, Dunlop employed 12,000 in the UK – now the total is down to 3,000, some 1,800 of whom are employed at Fort Dunlop.

New investment is continuing, albeit at a relatively modest pace compared with some of Sumitomo's larger rivals. Some £50m has going into the UK facilities so far, with *pro rata* amounts at some other plants in France and Germany.

Intensive training and much improved communications with SP's work force, allied to the setting of stiff but achievable targets, have been priorities, post the Sumitomo takeover, says Mr Radford. Tbse targets, for the first four years have been concentrate heavily on product quality and productivity.

SP remained distinctly uncommunicative about the results of all this activitiy in terms of market share.

Independent estimates, however, put Sumitomo's share of the total West European share market at around 2 per cent, around half that of now fellow Japanese-owned Firestone and well behind the market leaders.

One problem for the group is that, in Europe at least, it is coming close to its capacity levels, at least given current working patterns. More may be squeezed out through, for example, moving the UK plants to seven-day working as has already been done by some of SP's rivals.

"We are not planning to expand production now – but in the future we may need more facilities – and not only in Europe," according to Sumitomo's senior executive in Europe, Mr Toshio Takabayashi.

He also professes to see no necessity for more acquisitions, at least "for the time being", although he says he believes there is scope for yet further amalgamation in the industry, particularly in the US.

There are, he suggests, "two ways of defending ourselves. One way lies in being technically superior; the other is size.

"I do not see any major disadvantages in being close behind the top, so long as we are big enough to defend ourselves. The only real way to stay alive is to stay technically ahead".

John Griffiths

Search for automation won

Continued from Page 4

Automatic tyre building machines, such as those now *turning out truck tyres 24* hours a day at Pirelli's Settimo Torinese plant, are costly and make economic sense only if worked round the clock. Naturally, there are fewer shop-floor workers than there used to be, but three-shift agreements negotiated with the unions ensure better pay and conditions for those remaining.

The ultimate in automatic tyre manufacture has always been a casting or injection-moulding process, ideally without any internal reinforcement. This remains an unattainable dream, but production of polyurethane tyres by reaction-injection moulding has advanced far beyond the feasibility stage at the Kittsee, Austria, factory of LIM Kunststoffe Technologie GmbH.

Five years ago I tested a set of LIM polyurethane car tyres, with conventional wire beads and some textile reinforcement pre-positioned in the mould, back-to-back with steel belted radials. They were surprisingly good. Many a family car driver would not have known the difference between them and normal tyres. However, they would have been outclassed by subsequent *radial* developments.

The attraction of reaction-injection moulding a tyre is that the building stage is eliminated. The operation is reduced to placing a pair of wire beads and reinforcing materials automatically in a mould and then injecting material to make a corpus, which might be compared with the parison stage in bottle blowing (where the glass is rolled immediately after coming out of the furnace). Then a second set of mould segments closes around the corpus and a further injection of polyurethane takes place. In a minute or two, the complete tyre is ejected and, after a brief pause for curing, is ready for mounting on a wheel, just like a rubber-based tubeless tyre.

Ever optimistic, LIM Kunststoffe is now looking to the time when tyre and wheel can be reaction-injection moulded as one easily recycled unit.

Stuart Marshall

Car tyres' conflicting demands

Continued from page 4

wheel at the roadside and thus of the spare tyre itself.

Fifteen years ago Dunlop thought it had the answer in its Total Mobility Concept, later renamed the Denovo. It *stayed on the rim when punc*tured. The walls splayed out sideways so they would not be nipped between rim and road. A flat Denovo could be driven for several hundred miles at reduced speed. However, it was heavy, expensive and (like Michelin's TRX), demanded a unique wheel that no other tyre would fit.

The Denovo concept survives as the TD tyre/wheel system, made only by Dunlop and Michelin. In Germany, the Continental Group has come up with an even more radical runflat tyre concept called CTS (for ContiTyreSystem).

Daimler-Benz is to offer CTS as an option on its new SL sports car, due to be launched at the Geneva Show in March. Continental hopes it may be in more general use (and in production under licence by other tyre makers) by the mid-1990s. However, not all car makers are convinced that a runflat tyre necessarily has to use a unique wheel, as CTS does. Many are waiting for a system with a wheel that will take runflat or standard tyres, depending what the buyer wants.

Another promising innovation has been using two very narrow tyres side by side instead of a single fat one. A problem with very wide tyres is that in heavy rain they may aquaplane – ride on surface water that the tread pattern's drainage grooves cannot clear away fast enough.

A Geneva-based inventor, Jerry Juhan, developed and has sold in the aftermarket wheels with two very skinny tyres side by side, with a huge gap between to take away the bulk of the water. The idea seems to work. Also, if one tyre goes down you can drive on for very long distances on its neighbour – providing you know you have a flat. Then you must increase the surviving tyre's inflation pressure to carry the extra weight.

Most European car makers have tried the JJD (Jerry Juhan Developments) twin tyres, but none has decided to offer them as optional original equipment. However, in Japan, Yokohama Tyres is working with Mitsubishi Motors to develop a similar twin tyre system and Audi has agreed to co-operate with the development in Europe.

Stuart Marshall

Michelin of France shows renewed confidence

Successful global strategy

MICHELIN, which has now crept just ahead of Goodyear as the world's leading tyre group, is both a typical and atypical French company.

On the surface at least, it seems to be the most French of French companies tucked away in Clermont-Ferrand, in the heart of provincial France, and managed by a secretive and paternalistic patron, Mr Francois Michelin.

At the same time, however, Michelin is undoubtedly one of the most global companies in France and has continued to build up actively its international presence.

This global approach is one of the key secrets of the success of the French group. The other components have been its long-term commitment to technological innovation – Michelin, after all, invented the radial tyre and has regularly invested the equivalent of about 5 per cent of its annual sales in research and development – and its strategy of focusing on its core tyre business.

After going through a particularly difficult restructuring period in the early 1980s following the second oil shock, Michelin today gives all the appearances of a company in confident spirits. Since 1981, and despite the recession, Michelin unlike its main competitors has seen its tyre production rise by about 40 per cent. At the same time, its overall workforce has been reduced by about 25,000 to 117,000 underlying the sizeable productivity gains the company has made during the last seven years.

In turn, the company has bounced back into profit after losing more than FFr8bn in the three years to the end of 1984. Profits in the first half of this year totalled FFr1.25bn on first half sales of FFr25.5bn. Net profits for the whole of last year amounted to FFr2.65bn on sales of FF46.9bn.

To achieve its world leadership position, the group has adopted a long-term step-by-step strategy to international expansion. The first step was to consolidate the group's traditional European base. Western Europe, which absorbs about 30 per cent of world car tyre production, now accounts for 66 per cent of Michelin's annual passenger car tyre sales. It also accounts for 55 per cent of the company's truck tyre business.

Francois Michelin: planning further international expansion.

The second step was to expand dramatically in the North American market, where Michelin has invested about $1bn since the early 1970s to penetrate in a major way the American market.

The group is now planning to invest a further $500m in the US and Canada in the next four years to strengthen its position even further on these key markets, which absorb as much as 40 per cent of world car tyre production and now account for 27 per cent of Michelin's annual car tyre sales. North America, which represents nearly 25 per cent of the world truck tyre market, also accounts today for about 33 per cent of Michelin's annual truck tyre sales.

Michelin has now embarked on the third stage of its international expansion in the Asian markets. The French group has negotiated three important joint venture tyre production agreements in South Korea, Thailand and Japan. In South Korea it has linked up with Wuon Poong, the third biggest Korean tyre maker, while more recently in Thailand it has teamed up with Siam Cement to start manufacturing tyres in Thailand by the end of next year.

Michelin subsequently signed an agreement with Okamoto of Japan this year to form a joint venture called Michelin Okamoto Tire Corporation which will absorb Okamoto's tyre manufacturing plant of Gunma, north-west of Tokyo, and double its capacity by 1990.

This new investment will reinforce Michelin's presence on the Japanese market where it had already set up its own commercial subsidiary called Nihon Michelin Tire back in 1978. Japan, which absorbs about 11 per cent of world passenger car tyre production, now accounts for about 7 per cent of Michelin's annual car tyre sales.

The French group has also recently undertaken a new strategic expansion in the aerospace sector by announcing this autumn plans to buy the aircraft tyre business of BF Goodrich of the US. The deal will turn Michelin into the world's second largest supplier of aircraft tyres after Goodyear of the US. Although the French group has successfully adapted its radial tyre technology to the aerospace sector during the last few years, it has only had up to now a marginal share of this market.

However, the BF Goodrich operations that Michelin is acquiring, which include a recently built aircraft tyre manufacturing plant in North Carolina, tyre retreading facilities in the US, marketing and sales networks as well as research and testing facilities, will give the French group a major presence in this market overnight. BF Goodrich's aircraft tyre business accounts for about 20 per cent of the world market and 32 per cent of the US civil and military aircraft tyre market. Moreover, Michelin and BF Goodrich will collaborate closely on future aircraft wheel and tyre developments.

All these recent operations reflect eloquently the current confident and expansionary mood of the French tyre group, which even went a few weeks ago to the rescue with a group of other French industrial and financial companies of Epeda-Bertrand Faure, the French diversified car seat manufacturer threatened by a hostile raid by Valeo, the French car components concern under the management control of Mr Carlo de Benedetti, the Italian businessman.

Michelin's intervention in the Epeda-Bertrand Faure takeover battle also reflects Mr Francois Michelin's personal commitment to a solid sense of traditional industrial ethics at a time when a growing number of French enterprises have been shaken by the new breed of French corporate raiders and financiers.

But Mr Michelin has also been adapting to changing times. Indeed, he has started to drop the cloak of his legendary secrecy by appearing from time to time in the public limelight, albeit with characteristic and extreme discretion.

Paul Betts

Continental of West Germany

Big expansion moves

CONTINENTAL'S $650m takeover of General Tire of the US last year has taken the West German tyre producer to the head of the pack of large companies chasing the three world market leaders, Goodyear of the US, Michelin of France and Bridgestone of Japan.

The gap between fourth-placed Continental and the industry giants is still considerable, but the West German group now feels more confident that it is reaching a sufficient size to enable it to remain independent in a world industry marked by a rapid process of concentration.

In earlier expansion moves, Continental has taken over the European operations of Uniroyal of the US in 1979, and followed this with the acquisition of Semperit, the Austrian tyre maker, in 1985.

Continental's development is being driven by its need to keep pace with the globalisation of the automotive industry and provide the leading vehicle makers with a comprehensive technical and commercial service in all the major sales and production regions of the world. Cost considerations are forcing the automotive industry to drastically reduce the number of its suppliers worldwide.

"It is our objective to maintain the greatest possible presence in the three most important markets, North America, Europe and Japan. This requires considerable effort,"

Continental has bold plans to boost sales in North America, Europe and Japan

says Mr Günter Sieber, tyre marketing and sales director. "We want to reduce the gap between us and the world's three largest tyre manufacturers."

Mr Sieber says that Continental's strategy for future growth is based primarily on its current production base, but it is creating significant new capacities in North America and "selective acquisitions in strategically important regions" cannot be ruled out.

The West German tyre maker is forecasting a sales turnover in 1988 of DM7.8bn ($4.3bn) compared with DM5.1bn in 1987, and according to Mr Ingolf Knaup, Continental finance director, sales will rise next year to around DM8.2bn ($4.5bn). Group sales are targeted to reach DM10bn in 1992 once its planned investments in North America and West Europe have been completed.

Of this year's DM7.8bn turnover DM6.3bn ($3.5bn) or some 81 per cent will be generated by the tyre operations with DM1.5bn ($830m) coming from industrial products. (More than 50 per cent of this division's sales are also to the automotive industry, largely in West Germany, although Continental is beginning to acquire similar businesses in other parts of Europe, chiefly France and Spain to date).

Group worldwide production currently amounts to around 54m car tyres and 7m commercial vehicle tyres a year giving Continental an eight per cent share of the world tyre market.

Apart from the acquisitions

Continental's group sales are targetted to reach DM10bn by 1992

in West Europe and the US Continental has also reached co-operation agreements with companies in Scandinavia, Gislaved and Viking and in India, Modi involving the transfer of its technology know-how.

More importantly it has entered into agreements with Yokohama and Toyo, the two Japanese tyre producers who rank eighth and ninth in terms of worldwide sales, involving the exchange of know-how and the production of Continental's tyres in Japan.

It has an agreement with both companies for the local production of Continental and General Tires branded products at the Japanese groups' plants to its own specifications for the Japanese auto industry, but the volumes are still very low.

Continental also supplies some tyres from Europe to Japanese car makers. It claims that around 20 per cent of the Japanese cars exported to Europe are equipped with Continental group tyres, and that overall it supplies tyres as original equipment for around 3.5 per cent of the cars produced in Japan.

The group is about to embark on the largest investment programme in its history with investments totalling nearly DM3bn ($1.6bn) planned over the next four years from 1989 to 1992.

Much of this investment will be focused on the US, where Continental is concentrating its resources on two projects.

Gűnter Sieber: reducing the gap.

● It has entered a joint venture with its Japanese partners Yokohama and Toyo to construct a large plant in the US to produce radial commercial vehicle tyres involving an investment of around DM350m ($200m) up to 1992.

The new plant should have a capacity for producing around 880,000 large truck and bus tyres a year equal to about half of the group's current annual output of equivalent tyres in Europe.

Continental hopes to gain a competitive edge by pooling the technical and commercial knowhow of the four groups, Toyo, Yokohama, General Tyre and itself and by concentrating production allowing marginal unit costs to be lower.

● In addition Continental is planning to invest some DM850m ($470m) in General Tire's manufacturing facilities and sales operations in North and Central America over the next four years. These investments are aimed at rationalising and modernising the General Tires operations as well as at expanding capacity and mean a total North American investment plan of some $670m over the coming four years.

Through the takeover of General Tire Mr Sieber claims that Continental has acquired a good position as an original equipment supplier to General Motors, supplying 17.5 per cent of its requirements, Ford (12 per cent) and Nissan in the US (40 per cent). It intends to expand this position while also intensifying its trading activities, chiefly through the Continental and General Tire brands, but also continuing its private brands business.

Through the rationalisation and expansion of the plants in the US, Canada and Mexico and the introduction of new products Continental hopes to increase its share of the North American replacement car tyre market from eight per cent to ten per cent by 1992, with a parallel increase in its share of the commercial vehicle tyre market to 12 per cent from ten per cent at present.

In Europe, where Continental has nine plants in West Germany, the UK, France, Ireland, Belgium and Austria, it is seeking to increase its share of both the original equipment and replacement markets with a multi-brand policy and major new investments in its sales and marketing operations.

It currently leads the West German, Swiss and Austrian markets and is seeking to establish a better foothold in the other high-volume markets of France the UK, Italy and Spain. It has around 18 per cent of the European original equipment tyre market.

Continental claims that it has made "substantial progress" in improving the flexibility of labour agreements at its European plants with with regular Saturday shifts and in some cases a 7-day production schedule.

It is also hopeful that its new concept for run-flat tyres, CTS (ContiTireSystem) which allows the motorist to continue to drive even with a flat tyre, will enter production next year. "We believe that one of our main customers will introduce this tyre on to the market with a production car in the spring of 1989," says Mr Sieber, but he rules out large volume output before the mid-1990s.

Despite an ambitious investment programme and the series of acquisitions Continental has managed to strengthen its finances and has increased its equity to debt ratio by some 40 per cent since 1983. The group's earnings per share have been flat this year at around DM 29 per share, but Mr Knaup maintains that earnings per share can be raised to DM31/DM32 in 1989.

After slumping into loss in 1981, Continental has achieved a considerable financial turnround from a group net loss of DM17.8m in 1981 to a net profit of DM114.5m in 1986 and DM138.8m in 1987. After failing to pay a dividend in the crisis years of 1981 and 1982, Continental has managed steady increases in the last five years and Mr Knaup accepts that the DM7 dividend paid in 1987 "cannot be the upper limit in the medium term". Continental turnover has increased by 300 per cent from DM2.6bn in 1979, while the workforce has only grown by some 50 per cent from 31,000 to 45,000.

The group still has some way to go, however, having barely matched the average profitability of the world's biggest tyre makers during the mid-1980s, and was a considerable distance behind the profitability of the big three, Michelin, Goodyear and Bridgestone in 1987.

Kevin Done

Pirelli of Italy

A puzzling question

WHAT WILL Gruppo Pirelli, the Italian tyres and cables group, do next?

The question is one much asked in the wake of Pirelli's plan to float between 20 and 30 per cent of its world tyre operations on the London, New York and Amsterdam stock exchanges by early 1990.

Having itself fended off an attempted takeover by the considerably smaller Yokohama tyres group of Japan, Pirelli was left smarting earlier this year when Bridgestone, Japan's largest tyre maker, outbid Pirelli for Firestone of the US.

Bridgestone thus thwarted the Italian company's bid to leapfrog Continental AG of West Germany and Bridgestone itself to become the world's third largest tyre manufacturer, behind Goodyear and Michelin.

That Pirelli then went on to pay $190m – only one-tenth the size of its unsuccessful bid for Firestone – for a much smaller US producer, Armstrong Tires, was seen by many as just partial and temporary compensation for losing Firestone. It would not be long, some observers reasoned, before Pirelli made a fresh move as part of the still-ongoing concentration of world tyre business into ever fewer hands.

Pirelli's rivals appear to have formed themselves into camps of opinion as to precisely what might happen next.

One argues that it would be wholly logical for Continental and Pirelli to join forces. That would indeed make a formidable combination and leave such a grouping not just ahead of Bridgestone/Firestone in turnover terms, but treading hard on the heels of joint industry leaders Goodyear and Michelin as well. Goodyear and Michelin are each expected to turn over around $8bn, with Bridgestone/Firestone at about $6.5bn. Continental, following its own acquisition of General Tire of the US earlier this year is already in fourth place, with an expected 1988 turnover of "only" $3.8bn, while Pirelli is not far behind at $3.4bn.

The other camp suggests that Pirelli might opt instead to go after Uniroyal-Goodrich of the US (itself the product of yet another merger), the last of the major US groups seen as vulnerable to a further takeover bid. It has annual turnover of around $2bn.

All this, of course, remains pure speculation. Neither Pirelli's general manager of tyre operations, Mr Ludovico Grandi, nor Mr Gunter Sieber, Continental's managing director, say they are contemplating any significant acquisition activity in the short term.

Ludovico Grandi: a conservative view.

Equally, both have been careful not to shut the door on taking part in any further restructuring of the industry.

This will certainly be made easier by Pirelli pulling all its tyre operations into one new Dutch company, Pirelli Tyre Holding BV, and then floating a substantial holding.

It thus acquires more flexibility in the event of joint ventures or acquisitions and becomes better placed to attract new investment, particularly given its relocation away from the Italian industrial-political heartland. (Mr Grandi insists that Pirelli's tyre-making plants worldwide will remain unaffected.)

Mr Grandi himself is conservative in his remarks about the future, suggesting that the concentration that has already taken place among the major players will not go significantly further. "I think the handful of existing groups now present will stay for the next 10 or 11 years". He does concede that if there is to be a further shake-out realignment in the industry, Uniroyal-Goodrich could be a candidate – "but really, I think that for this to happen to a company with $2bn sales, would be to concentrate too much."

Top of Pirelli's priority list at the moment from the operating point of view, he insists, is to integrate Armstrong into Pirelli's network of 29 tyre plants and 31,500 tyre sector employees world-wide.

To that end, Pirelli is to invest $200m-$250m in what will become the Pirelli Armstrong Tire Corporation in the US. Much of the money will be spent on equipping Armstrong to produce Pirelli-branded tyres as well as its own.

By any measure, however, Armstrong is not the prize that Firestone would have been: it has 2,700 employees, distributed through five US plants and the New Haven, Connecticut, headquarters. Its turnover of $450m is largely made up of farm tyres, in which it is quite strong, a 5 per cent share of the North American replacement car tyre market, and 6 per cent and 3 per cent respective of light and heavy truck replacement business.

Pirelli itself holds only a 1 per cent share of US car replacement business, compared with around 15 per cent for Goodyear and 10 per cent for Michelin. It has about 5 per cent of the replacement truck tyre market. Overall, says Mr Grandi, it should be possible to capture about 7 per cent of the US vehicle replacement tyre market and Pirelli is keen to talk US car makers about US-produced Pirelli tyres as original equipment. That Pirelli's share of the US replacement market for premium, high-performance car tyres, however, is seen by Mr Grandi as a good omen.

Nevertheless, Pirelli's presence remains a remarkably small one in a market which, on its own, absorbs between one third and 40 per cent of all world tyre output.

While a tentative valuation has yet to be placed on the tyre operations flotation, Pirelli is no longer seriously constrained on the financial front after three years of increasing profitability. Last month the Pirelli group announced interim net group profits of $106m on sales of $3.3bn, figures which excluded any contribution from Armstrong. This followed shortly after Pirelli Spa, the holding company, reported full year profits of $50.7m.

It expects the rising profits trend to continue as manufacturing system improvements and other productivity measures continue to work their way through, in tandem with a product strategy based heavily on exploiting premium, "hi-tech" sectors of the market.

If Michelin pioneered the radial, it was Pirelli which led the way in introducing high performance low-profile car radials – typified by Pirelli's P6 and P7 ranges – in the early 1970s. More recently, a new generation of ultra-low profile tyres has appeared.

Such tyres have proved a major asset to the companies which have acquired good reputations for them, competition being based on technology even more than price and thus allowing much better margins than those prevailing at the "commodity" end of the market.

Even though the fast growth in car production which has taken place in car production during the past few years is now expected to level out, if only temporarily, Mr Grandi expects Pirelli to be a substantial beneficiary of the trend towards not just high-performance cars to be fitted with low-profile and ultra-low profile tyres, but an increasing proportion of volume models.

"The premium sector is becoming standard", observes Mr Grandi, who expects the proportion accounted for it to rise from the current 10 per cent to around 50 per cent. This growth, he suggests, should prevent a major price war, even in the premium sector. "That is why we are investing 3.6-3.8 per cent of sales revenue to keep our technical lead", asserts Mr Grandi.

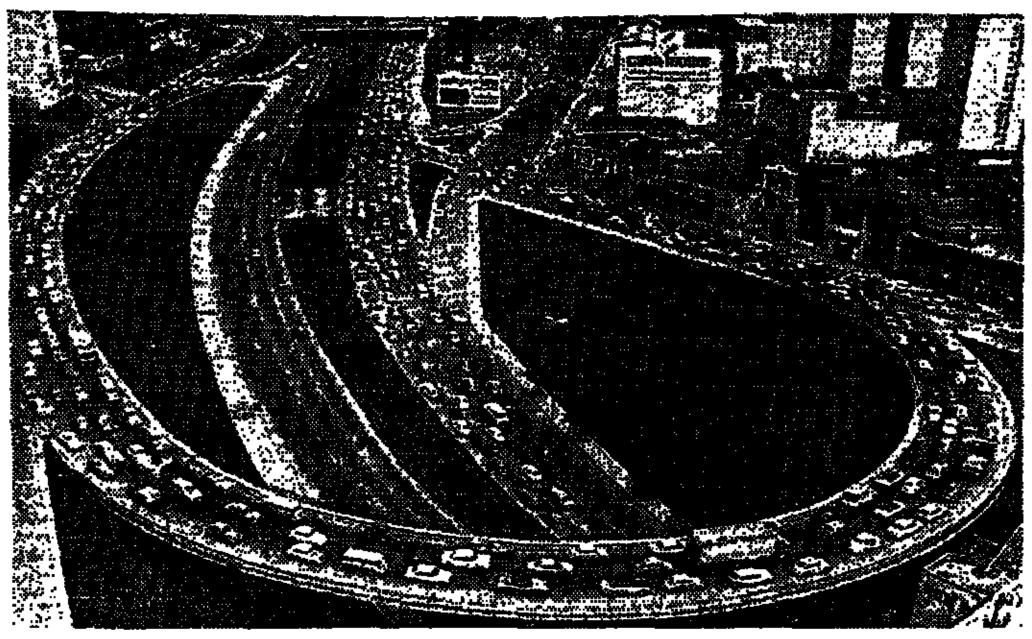
Pirelli's other main tyre investment currently is in the UK, where it is expanding and modernising its two car and truck plants at a cost of around 180m. Somewhat smaller projects are also going on in Brazil – where it has seven plants – and India.

However, though Pirelli is now a supplier of original equipment tyres on some high-performance Japanese cars, Mr Grandi admits that it has yet to develop a strategy for the Far East, where car output is growing at an extremely rapid rate in countries like Korea and Taiwan. "We are looking at it closely, but the strategy is not yet defined".

The company has, however, secured a toehold in the potentially vast Chinese market, in the form of supplying equipment and technical know-how for a total of three car and truck plants with combined capacity of around 300,000 units a year.

John Griffiths

WORLD TYRE INDUSTRY 8



The Sao Paulo rush-hour: Brazil is Latin America's largest tyre market

Brazil leads the pack in Latin America

Protectionism saps regional sector

WHETHER A developing country can play an important role in the world tyre market is determined primarily by its having a domestic market large enough to offer the economies of scale necessary to support exports.

Brazil, with 145m people and 11m vehicles on its roads, is Latin America's largest market. So it is no surprise that the country is the region's leading tyre producer, ranking ninth in world passenger tyre output last year with 20.5m units.

It was also ranked ninth in truck tyre output, with 4.1m units. This was behind Mexico's 4.8m output for trucks, but well ahead of its 5.1m passenger tyres.

Brazil and Mexico are also the only two countries in Latin America with domestic vehicle markets large enough to warrant substantial investments by multinational vehicle makers in car and truck plants, exports from which include the US in particular, thus heightening the importance of the original equipment market to those tyre producers present.

In all other countries around the continent, tyre plants have been installed exclusively to serve the domestic market.

Trade barriers between the countries in both Latin America and the Caribbean have meant that companies have had to have a plant in virtually every market in which they want to compete, so that some 40 factories are spread through 14 countries in the region.

In Latin America, for instance, only Bolivia and Paraguay do not have at least one factory. Furthermore, most plants traditionally have had to be able to offer a full range of car, truck and tractor tyres to their local market, as protectionist legislation has prevented cross-border flows and the multinational tyre groups from rationalising production in pursuit of advantageous economies of scale.

Brazil and Mexico are also the only two countries in Latin America with domestic vehicle markets large enough to warrant substantial investments by multinationals

For this problem to be resolved, they must pin their hopes on a future Latin American common market, the seeds of which have finally begun to be sown by Brazil and Argentina, Latin America's two largest economies: they are working toward full economic integration by 1998.

Mexico's $130bn GDP puts it second in Latin America after Brazil's $300bn and before Argentina, with US$70bn. But Mexico's economic integration is bound to be into a North American common market, which is likely to change the way the multinational tyre makers develop that country's industry.

Indeed, in investing in Mexican operations, the tyre industry is, as usual, following the lead of the carmakers, two of whom, Ford and GM, already include Mexico in their North American profit centre. Being, as the Mexicans say, so far from God and so close to the United States, the country is exporting increasing numbers of built-up vehicles to the US: 163,000 units were exported last year, up from 72,400 in 1986.

A large part of this increase was due to Ford's Hermosillo plant, making the Tracer exclusively for US consumption. This plant sent its first 51,000 units stateside in 1987 and prompted Goodyear to install a tyre fitting plant alongside to serve it.

Hermosillo is destined to be the second source for certain of Ford's North American car lines in the 1990s, the idea being that Mexico should serve all the southern half of North America while plants in Michigan supply the North-East and Canada.

Having closed down its only US production plant this year, Volkswagen has similarly begun to rely on Mexico for the Jettas and Golfs it markets in the States, while Nissan's Mexican subsidiary expects to overtake its parent in sales to the rest of Latin America in 1989.

Such developments will mean increasing volumes of car exports from Mexico, and can thus be expected to generate more tyre industry investments too.

Brazil is currently a much larger exporter of vehicles, meanwhile, having sold some 345,000 units abroad last year, about 100,000 of which went to the US and Europe. That means a demand for tyres to meet the demands of developed world markets, which in turn has led manufacturers to invest in increasing the radial portion of their output and work to phase out conventional tyres with inner tubes on the domestic market also.

Part of Goodyear's US$130m investment programme for Brazil is for radialisation, admitted Mr Carlos Perez, president of the local subsidiary.

Brazil's vehicle production this year should be around 1m units compared with Mexico's 400,000. In addition to OEM and replacement operations, however, the tyre industry is also increasing rapidly the number of units it exports directly to partner companies or other subsidiaries around the world: Goodyear, for instance, exports to some 40 countries, while the US alone absorbs some 30-35 per cent of its exports this year, which Mr Perez says will come in at around US$110m. Indeed, Brazil is for both Goodyear and Firestone (now owned by Bridgestone, the leading Japanese producer, the largest single operation outside the US.

Total Goodyear sales in Brazil (including exports) will be around US$500m in 1988. Goodyear is also the leading tyremaker in Latin America, running 10 of the 40 plants in the continent. It is market leader in Mexico and number 2 behind Pirelli in Brazil.

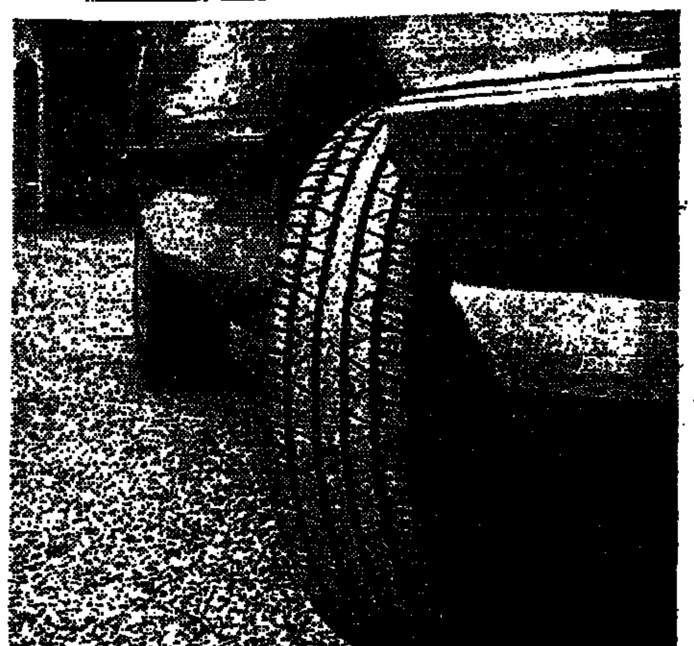
To add to the attraction of its domestic market, Brazil also has an incentive programme for exports, allowing companies to import tax-free one dollar for every three they export as part of ten-year commitments, thereby reducing the cost of plant modernisation with imported capital goods.

Goodyear, Pirelli and Michelin all have such programmes in place, Goodyear's entailing exports of US$770m in the period 1981-91. Firestone, Brazil's only other major producer, is also about to sign up with the government for such a programme, their commitment being US$440m in 10 years.

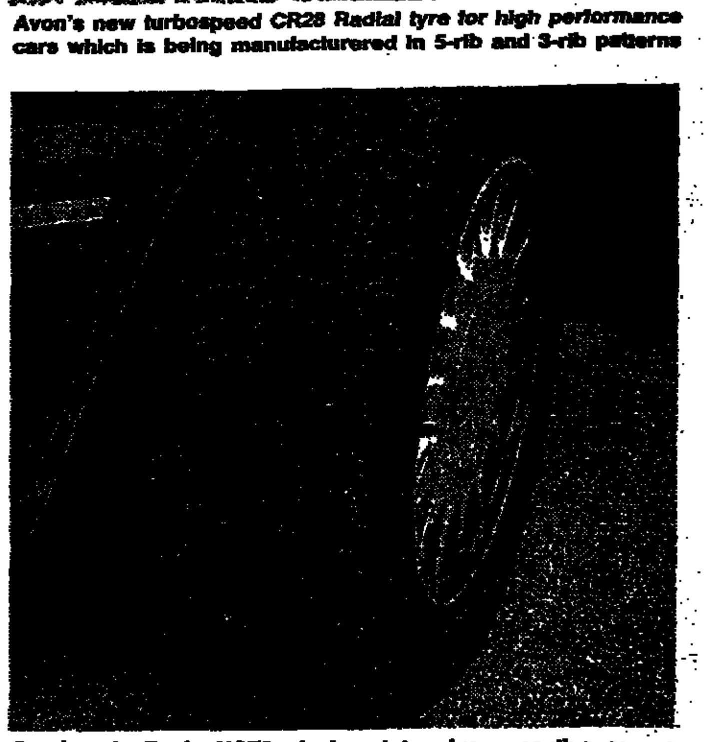
Trade barriers between the Latin America and Caribbean countries have forced companies to instal a plant in virtually every market in which they want to compete

Thus while domestic consumption of tyres in Brazil should grow around 4.5 per cent this year, the industry's production will be up 5 per cent, coming in at 28m units.

The reason is exports, which will rise 12 per cent this year. Indeed, an authoritative consultant's study done for one of the four companies installed in Brazil says its tyre production, taking into account the expansions all four have announced in the last year and a half, should average 6.7 per cent annual growth over the next five years, compared with a Latin American average of 4.3 per cent and a world average of just 2.1 per cent.

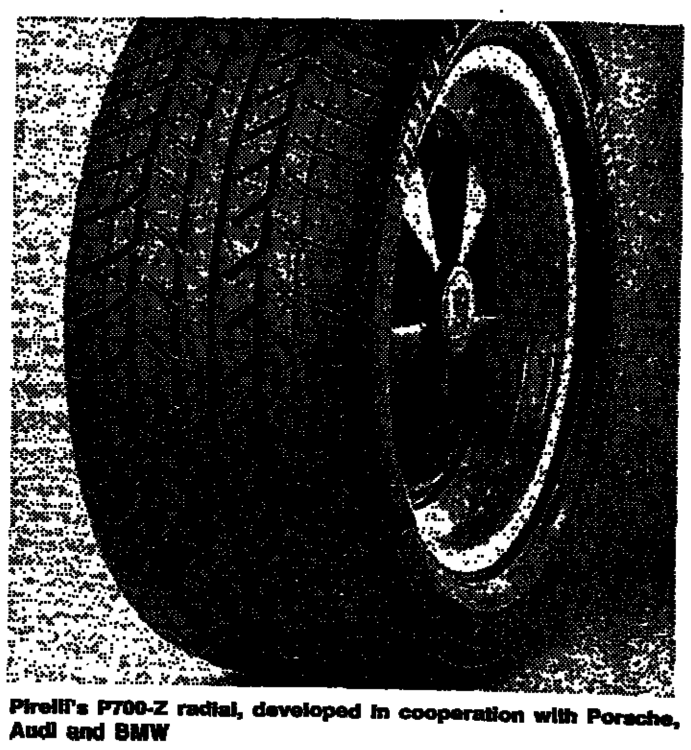


Avon's new turbospeed CR28 Radial tyre for high performance cars which is being manufactured in 5-rib and 3-rib patterns



Goodyear's Eagle NCT2, designed to give executive cars a softer,quieter ride: chosen by Saab for its 9000CDi saloon

A development tyre made from polyurethane by reaction-injection moulding by LIM Kunststoffe Technologie of Austria



Pirelli's P700-Z radial, developed in cooperation with Porsche, Audi and BMW

China

Diversification, expansion

CHINA is in the process of diversifying and expanding her tyre industry, which had previously produced relatively small quantities of mainly bias tyres. Last year's output rose by 22% to reach 21.5m units, enough, it is said, to satisfy domestic demand.

Indeed, the bias tyre industry is now looking for more export markets, especially in Southeast Asia and the West. It has been exporting only 2% to 3% of total production in the past few years, to a value in 1986 of US$52m.

But the introduction of foreign vehicles over the past two or three years, by direct import or joint venture manufacturing, has forced the industry to move into radial tyres. Eight *factories in different regions* are now importing radial tyre technology.

Typical of them is the Beijing Tyre Factory which has a US$12.9m agreement with Pirelli. When the new equipment is in place, by 1990, about 300,000 radial tyres will be produced annually for the Beijing Jeep Company, the American Motor Corporation joint venture.

The Beijing Tyre Factory employs 1,890 workers and has assets of Yuan 27m.

Another kind of diversification was carried out by the Tianjin Tyre Plant in North *China, a 50-year-old factory* originally under Japanese management. It has been trying since the 1970s to enter into a joint venture to get Western technology for the very large tyres which are particularly needed in China's northern regions.

One of the ex-Tianjin capitalists in Hongkong, S.T.Wong, through his company Trinity Development, put the Tianjin plant in touch with United Tyre Company of Canada, which had equipment to sell from a redundant factory.

The result is a US$30m joint venture in which the Tianjin Tyre Plant and other local rubber industries hold 60%, the Tianjin International Trust and Investment Corporation 15%, and the Canadian and Hongkong companies 20% and *5% each. It is the biggest* industrial joint venture in Tianjin.

Production began on a new site in October. The target is 50,000 sets of big engineering types of tyre of 1.5 metre to 3.2 metre diameter. The results are awaited of central government trial tests.

"China needs super-large engineering tyres, of 3 metres diameter, for mining and forest areas," says Mr Zheng Jumbo, director of the joint venture's management office. "Ours will be the first plant to produce them systematically for this need.

"We hope to export 60% of our production – in particularly, to Canada. This is a labour-intensive operation, so we can quote a good price in the Canadian market," he says.

Mr Zheng estimates that the second-hand production machinery, shipped from Canada, will last for at least ten years and possibly for 13 or more.

The Canadian corporation was thus able in effect to exchange its unwanted equipment for a share in the profits of a viable new production unit which looks set to be very competitive in the Canadian market. Only one Canadian technician remains on the site.

Because it is a joint venture, it qualifies for a low rate of taxation – it is also supposed to be immune from any financial and other cutbacks which China's foreign exchange and inflation problems might bring elsewhere.

The impressive new plant is spacious, with fewer workers – around 700, compared with the Tianjin parent company's 3,000, on a similar area of 11 hectares. The plant's internal architecture is pleasantly airy.

'Sooper Scoopers,' 'Superloaders' and similar epithets now adorn this Tianjin factory, and the sample products in each type and size, in a display near the gate, are impressive.

The older plant, with assets worth Yuan 45m, makes half a million sets of conventional tyres annually of the Dolphin brand, using an old West German production line.

It caters for trucks, buses, cars, industrial vehicles, carts and agricultural machinery. In the latter category, the plant accounts for almost one-third of China's total production.

Dolphin tyres sell abroad in East Europe and South-east Asia. The plant uses 7,800 tons of rubber a year.

Rubber supplies are a problem for both of these plant in Tianjin. They receive a quota of the limited production from Hainan and Yunnan in semi-tropical South China, but have to eke that quota out with costly imports from Malaysia and the South-east Asian producers, supplemented by Chinese synthetic rubber.

With three Sino-foreign joint ventures now making cars (Beijing Jeeps, Volkswagen in Shanghai and Peugeot in Guangzhou), together with the Japanese Daihatsu van joint venture in Tianjin, the demand for more tyres of more sophisticated kinds will emerge.

This year more than half a million motor vehicles are expected to have been sold in China. That is the scale of the challenge which China's tyre industry, in Tianjin and Beijing and elsewhere, has to meet.

Dick Wilson

Survival of the biggest

From page 1

In the replacement market, or at least the more enthusiastic, sporting part of it, buyers have proved themselves increasingly willing to pay even large premiums for what they consider the "best" tyres.

This trend is one of the main driving forces behind the industry's return to profitability in the past three or four years – and not least because it is the one sector of the market which is continuing to grow rapidly.

"Currently", says Mr Grandi, "these tyres account for about 10 per cent of the total for cars. But today's high performance tyres are the standard tyres fitted to volume cars of the future and they will be fitted to half of all cars in the early 1990s."

Mr Merce agrees: "Competition will be based on the market's demand for products high in quality, performance and perceived value. And that kind of competition leads to stability in an industry".

But stability for whom?

The level of investment needed – Pirelli, for example, is spending 3.4-3.8 per cent of sales on research and development – makes the future of the surviving smaller players look ever more problematical.

Some have fared reasonably well by exploiting selected market niches. A few, indeed, like the Avon Rubber company of the UK, are generating respectable profits relative to turnover (in Avon's case £7.7m pre-tax on sales of £112m the first half of this year) and investing heavily – at least pro rata – as well.

On the other hand, another small producer, Vredestein BV of Holland, has seen its net income tumble by 95 per cent in the first half of this year.

Overall, the odds against the small producers surviving, at least as independents, continue to lengthen. A legion of such companies have already become merely brand names within large groups – Semperit within Continental AG of West Germany, for example, and Kleber within Michelin of France.

The market continues to fragment. Truck tyres, once a relatively straightforward commodity, are going down the same sophistication route, with very high mileage low-profile radials come into increasingly widespread use.

Run-flat tyres, for which there have been several false starts, appear ready to make a significant market breakthrough. At the very top of the high-performance market, tyres are emerging with different treads, dependent on which wheel of the car they are to be fitted.

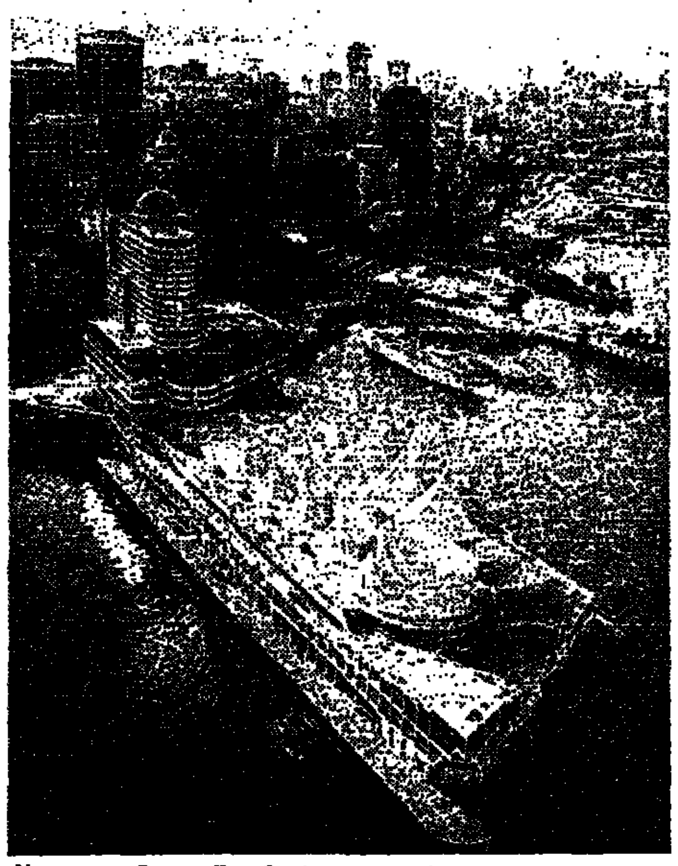
Other market-creating, and reducing, factors are also at work, some of them far from obvious.

The proportion of replacement tyres as a percentage of the total market, though still well in excess of that for original equipment, is coming down markedly because of tyres' greater longevity. Tyre makers used to count on an average of about 1.5 replacement tyres per vehicle per year. Now the level is down to between 0.5 and 0.6 per cent.

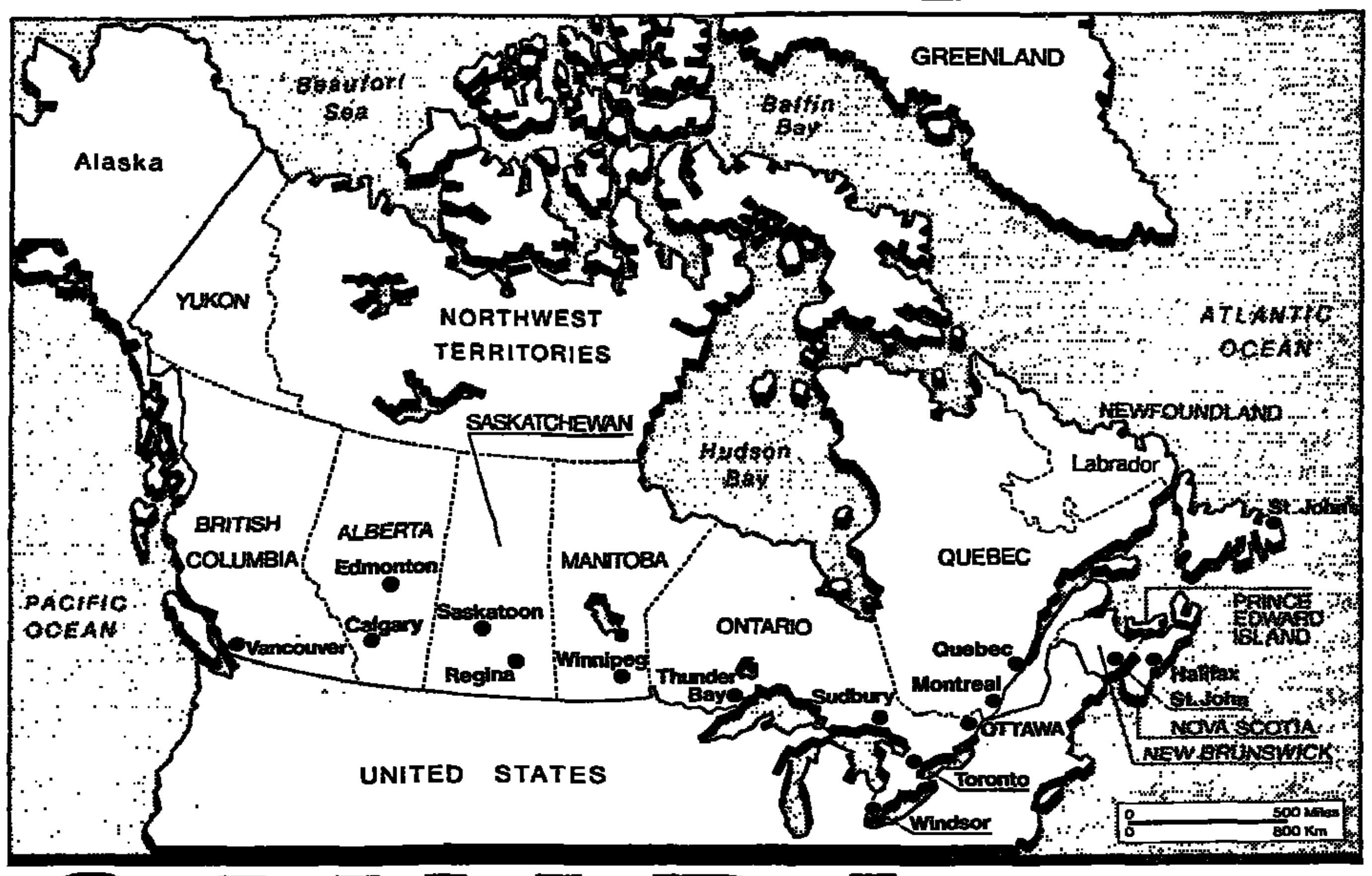
Within those overall averages, however, tyre executives can barely suppress a chuckle every time they hear a 'hot hatchback' screech away from the traffic lights – for its front wheel drive can chew up those expensive ultra-low profile tyres in 5,000 miles or less, in the hands of a determinedly hooligan driver.

FINANCIAL TIMES SURVEY

The solitary and uniquely divisive issue of the free trade pact with the US dominated the recent elections in which Mr Brian Mulroney was voted in for a second term. He must now prove that the deal will really benefit the country, writes **David Owen**



Vancouver Convention Centre, British Columbia



CANADA

Uncomfortable trade-offs

THE RESULT was in doubt to the last. But Canadians finally swallowed hard, held their noses and on November 21 effectively voted to ratify Prime Minister Brian Mulroney's Free Trade Agreement with the US.

In doing so, they re-elected Mr Mulroney for a second term as Prime Minister. They also rubber-stamped a host of other ongoing Progressive Conservative initiatives, including tax reform, privatisation and deregulation and a plan to buy a fleet of nuclear-propelled submarines from Britain or France.

It was not an overwhelming victory. Mr Mulroney secured a reduced majority of 43 in the 295-seat Canadian Parliament and received just 43 per cent of the popular vote. The presence of a divided Opposition, comprising the Liberals and the left-of-centre New Democratic Party (NDP), was thus crucial. Nonetheless, it was a notable achievement. Back-to-back majorities are not lightly won in diverse and fragmented Canada. Mr Louis St Laurent was the last to contrive the feat in 1953.

Canadians – though they are deeply divided over the issue – have thus decided to embark on a process of systematising commercial relations with their powerful southern neighbour. Though the actual impact of the agreement will be gradual, limited and hard to quantify (and was exaggerated by both 'pro' and 'anti' factions in the recent campaign), its symbolic significance should not be underestimated.

Negotiating a deal of this kind with a neighbour which has a population 10 times their size, whose revolution their ancestors rejected – and whose values and motives they have questioned ever since – goes deeply against the grain for many Canadians.

De facto, the US and Canadian economies have become interdependent to an exceptional degree. They share the largest bilateral trade between any two nations, amounting to some $150bn a year. Close to 80 per cent of heavily trade-dependent Canada's exports are destined for the US. Fully 80 per cent of goods crossing the common border already do so duty-free.

Nonetheless, to consent to codify this relationship on a bilateral basis rather than letting it develop organically constitutes a significant change in the Canadian psychology – particularly since the pact seems sure to accelerate a process of economic integration that is already advanced.

The election campaign itself, dominated by this solitary and uniquely divisive issue, was in scintillating contrast to the US election campaign that ran simultaneously. It was characterised by corruscating rhetoric, imaginative and quick-witted debates and unpredictable swings in popular support.

In one respect, however - its studied eschewal of several critical issues - the Canadian contest was disconcertingly similar to its US counterpart. As in the US, the dreaded "d-word" (deficit) received scarcely a mention. Nor did foreign or defence policy. Tax reform was discussed only crudely when Mr John Turner's Liberals used it as a second stick with which to beat the government once the message contained in their all-out attack on the Free Trade Agreement had begun to pall.

Constitutional reform could not be an issue, since Mr Mulroney's Meech Lake initiative was endorsed by both principal opposition parties, despite growing rumblings of discontent from a wide range of special interest groups.

Nor should the result be interpreted as evidence that Mr Mulroney has overcome his own personal credibility problem outside his native province of Quebec. Many businessmen overrode deep reservations on this score due to what they saw as the compelling need to support the trade deal.

Once the formalities required to put the trade pact promptly into effect are concluded, these other topics may be expected to emerge.

The first tough decisions to be taken will likely be under the heading of deficit reduction. Criticism has mounted since Finance Minister Mr Michael Wilson's last budget of the Conservatives' so far lackadaisical attempts, in a period of strong economic growth, to cut the budget deficit and to reassert control over the accumulated public-sector debt. In September, the OECD described increasing efforts to reduce the federal and provincial budget deficits as "indispensable".

Although the federal deficit has been trimmed from C$38.3bn in 1984-85 to a projected C$28.9bn in 1988-89, progress has virtually ground to a halt in recent years. Meanwhile, net debt at the approaching year-end will have risen to C$321bn, or more than 54 per cent of Gross Domestic Product. Many argue that if Mr Wilson is to make meaningful inroads in these figures, it will have to be in the 1989 and 1990 budgets - before ministerial thoughts begin again to stray towards securing re-election.

The trouble is, there appears to be no obvious place for the necessary adjustments to be factored in. If Canadians made one thing abundantly clear during the course of the recent campaign - other than their deep division over free trade - it is that they will not stand for erosion of their generous social welfare and regional development programmes. Equally, the government will presumably be reluctant to institute more taxes with a potentially unpopular new sales tax on the horizon.

One possible window exists in the sphere of federal agricultural spending, which has soared from C$3.3bn to C$6.1bn over the past two fiscal years, particularly if the Uruguay round of the Gatt makes any headway. However, with farmers hard-pressed after years of indifferent markets and this summer's crippling Prairie drought, here too the government would be playing with political dynamite.

The Meech Lake accord, which appeared - when it was first thrashed out some 20 months ago - to have resolved the lingering constitutional disagreements between Quebec and the rest of Canada, will also assume a much higher profile as Mr Mulroney's second term progresses.

At a provincial level, the accord, which recognises Quebec as a "distinct society" and decentralises some powers from Ottawa to the provinces, faces tough ratification battles in Manitoba and perhaps New Brunswick.

Federally, either or both of the major opposition parties, which initially supported the accord with some reservations due to the perceived importance of bringing Quebec into the constitution, may turn against it. By doing so, they would provide a platform for the numerous groups who have expressed opposition to Meech Lake

They may be hardened in any resolve to make a U-turn by the knowledge that their initial endorsement of the accord failed to yield either party the slightest electoral dividend in French-speaking Quebec. The Tories won 63 of the 75 seats on offer. Furthermore, both parties are likely to find themselves under new leadership in the not too distant future.

The Free Trade Agreement, meanwhile, will continue to be a recurrent if not a predominant theme, with the government under pressure to show that the deal really is in Canada's best interests. With an economic slowdown projected after five years in which Canada's average growth has been the fastest among the big seven industrialised countries, this promises to be no easy task.

Underlining the extent to which this vast but sparsely-populated country has become dependent on trends and decisions initiated elsewhere, the scale of the Canadian slowdown could well depend on the vigour with which the new US administration sets about correcting its own economic imbalances.

"Although the timing is hard to foretell", said the OECD in its latest Canadian economic report, "the eventual correction of US external deficits could put pressure on the Canadian trade balance."

KEY FACTS

Area: 9,958,234 sq km
Population: 25.65m (1987)
GNP: C$533.09bn (1987)
GNP per capita: C$20,783 (1987)
GNP growth: 4 % (1987)
Prime Minister: Mr Brian Mulroney (Conservative)

Currency: 100 cents = 1 Canadian dollar (C$)

Average exchange rate:
$ = C$1.326 (1987)
£ = C$2.173 (1987)

Current exchange rate:
$ = $C1.185 (Dec 1988)

Inflation: 4.4% (1987)

Unemployment: 8.89% (1987)

Federal budget deficit:
-C$27,869m (1985-86)
-C$24,548m (1986-87)
Merchandise exports: $97,871m (1987)
Breakdown of exports:
Food 8.72%
Raw materials 13.83%
Intermediate goods 34.38%
Final goods 56.93%
Exports to US as % of total: 75.7 % (1987)
Merchandise imports: -$89,111m (1987)
Imports from US as % of total: 68.1% (1987)
Trade balance: $8,759m (1987)
Current account balance: -$7,975m (1987)

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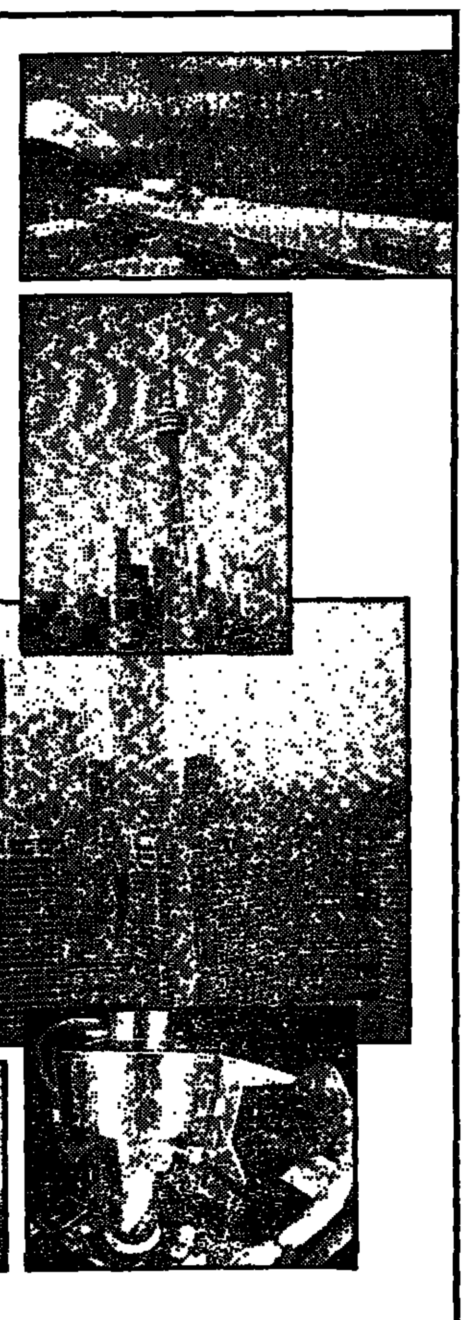
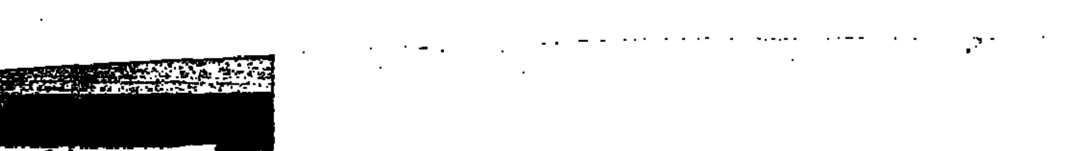




David Owen on a bruising election victory for the Tories

A tough second-term ahead

MR BRIAN Mulroney, the Canadian Prime Minister, broke the political mould by winning the country's general election last month.

In doing so he became the first Conservative Prime Minister since 1882 (and the first regardless of political allegiance for 35 years) to secure back-to-back majorities. He removed any lingering suspicion that the Tory landslide of four years ago was, like Mr John Diefenbaker's triumph in 1958, a flash in the pan. He also decisively undermined the notion that the Liberals, who have provided the Prime Minister for 62 of the first 88 years of this century, are the natural governing party of Canada.

Mr Brian Mulroney (left) and his unsuccessful challenger, the Liberal's Mr John Turner

Indeed, in the light of the Liberals' lack of success in the west and the left-of-centre New Democratic Party's failure to gain ground in the east, it could be argued that the Conservatives are for the moment the country's one truly national party.

Mr Mulroney is also the first Tory leader to sweep Quebec in two consecutive elections since Mr John MacDonald, the former Prime Minister, refused to commute French-Canadian hero Mr Louis Riel's death sentence – "though every dog in Quebec barks in his favour" – in 1885.

The party's overwhelming victory in Canada's only predominantly French-speaking province was the key to Quebec-born Mr Mulroney's comfortable but reduced majority. The Conservatives won 63 of the 75 Quebec constituencies, against 58 in their 1984 landslide. The Liberals won only one seat in rural Quebec and only five in wholly or overwhelmingly French-speaking districts.

However, the special circumstances attached to this consolidation of Conservative hegemony promise to confront Mr Mulroney with a particularly daunting second-term agenda.

In a nutshell, the election was fought and won on the single issue of Mr Mulroney's US-Canada free trade agreement. This had two important consequences.

First, all other business – be it constitutional reform, the federal budget deficit or the personal popularity of the leaders of the three major parties – was swept under the carpet. Some of these issues will come back to haunt the Prime Minister.

One particularly dangerous potential time bomb is the Meech Lake constitutional accord, through which Mr Mulroney hopes to bring Quebec into the Canadian confederation for the first time.

Opposition to the accord has so far been concentrated at the provincial level: both Manitoba and New Brunswick have profound reservations concerning the decentralisation of powers which ratification would bring in its wake.

However, observers expect resistance to gather momentum in the ranks of the federal opposition parties. Their initial endorsement of the document (albeit with some reservations) failed, after all, to yield them any glimmer of an electoral dividend in Quebec.

Nor has Mr Mulroney satisfactorily addressed his own lingering personal credibility problem. Outside Quebec, the Prime Minister remains unpopular and singularly unrespected. He is widely seen as glib, insincere and a consummate political opportunist.

If he cannot somehow convince his fellow Canadians that he has the good of the country at heart, each new policy initiative will continue to be greeted with caginess and scepticism by an electorate all too eager to impute less than honourable intentions to their leader.

The second upshot of the trade deal's monopolisation of public attention during the election is that its opponents are sure to watch with an eagle eye for any indication that the deal is not living up to the extravagant claims that the government and the business community have made for it.

With an economic slowdown projected, this will not be easy. The deal's opponents can even confer a degree of legitimacy on their actions by pointing out that 52 per cent of the electorate effectively opposed the deal by voting Liberal or NDP. Once ratified, in other words, the pact risks being branded a scapegoat for all manner of economic ills.

Furthermore, the Conservatives were forced to reiterate their commitment to Canada's generous social and regional development programmes during the campaign, in order to undermine a potentially telling Liberal revival.

With the need to make meaningful inroads into the federal budget deficit and to re-assert control over the public sector debt, this commitment threatens to box Mr Mulroney and his trusted finance minister Mr Michael Wilson into a tight corner.

If they do not show a resolve to get to grips with the problem by cutting expenditure and/or raising taxes in the 1989 and 1990 budgets, the fiscal consequences could be severe. If they do, the move will be widely interpreted as another example of Mr Mulroney rescinding election promises.

The election result left the two principal opposition parties with mixed emotions. Mr John Turner's faction-ridden and indebted Liberals roughly doubled their Parliamentary representation to 83 members (against 169 for the Conservatives).

However, a party so accustomed to controlling the levers of power will have been bitterly disappointed not to have at least denied Mr Mulroney a majority.

Mr Ed Broadbent's NDP, meanwhile, won more seats (43) than ever before but failed to make the national breakthrough on which it had wagered heavily. Once again, the party did not win a seat east of Ontario. Indeed, its conspicuous success in Saskatchewan and British Columbia has reaffirmed the party's centre of gravity as firmly as ever in its west Canadian heartland.

It is highly likely that Mr Mulroney will face two new opponents when he decides to seek re-election. Mr Turner, who is 59 and plagued by back trouble, is expected finally to make way for the new order before the mid-point of Mr Mulroney's renewed five-year mandate.

However, the desire to pilot his strengthened caucus through the initial stages of the new Parliament and to prevent Mr Jean Chretien from succeeding him may tempt the silver-haired lawyer – who has displayed Rasputin-like tenacity in defying repeated attempts to dislodge him – to delay his exit.

Similarly, the popular Mr Broadbent, 52, is considered unlikely to fight another election as NDP leader after 13 years in the top job. The likeable former university professor's reputation for sincerity has never quite been enough to transform his party into a credible alternative government.

Canadians have remained leery of certain NDP policies (withdrawal from Nato, nationalising a major bank), try as he might to reassure them.

"Now I'm going to listen to Mozart and Bach and Billie Holiday," a tired Mr Broadbent observed at the culmination of the recent campaign. As he does so, he may be pondering his own future.

Constitutional reforms

Ripples from Meech Lake

WHEN FUTURE historians examine the evolution of Canada, they will inevitably fix on two critical events of the late 1980s: free trade and constitutional reform.

The free trade issue will be seen as a move by the authorities to restructure the country's trade to secure its prosperity; the constitutional reforms will be seen as moves to realign the powers of the government to preserve the unity of the country.

While free trade dominated the recent election campaign, the constitutional issue may be more important to the long-term shape of the country.

The Meech Lake Accord, forged in the Gatineau Hills of western Quebec, was signed by Mr Brian Mulroney, the Prime Minister, and the provincial premiers on April 30 1987. It was subsequently approved by all three parties in the House of Commons.

Eight of the 10 provincial legislatures have already ratified the accord. Two, Manitoba in the west and New Brunswick in the east, are balking, but they must fall in line by June 1990. If the agreement collapses, the constitution will again dominate the national agenda.

In fact, the roots of the Meech Lake Accord lie in the last round of constitutional reform. In 1982, after 54 years of fitful negotiations, Canada patriated the British North America Act, the country's founding document, and freed itself from British trusteeship. At the same time, a Charter of Rights and Freedoms was entrenched.

Alone among the provinces, the separatist government of Quebec refused to sign the constitutions, although it was legally bound by it. Five years later, after arduous talks on the shores of Meech Lake, Quebec relented.

While Mr Mulroney hailed the accord as a crucial step in nation-building, critics, such as Mr Pierre Trudeau, the former Prime Minister, the Senate of Canada, provincial opposition leaders, indigenous people and northerners, describe it as a watershed in relations between the federal and provincial authorities, establishing the provinces as rival centres of power.

"Meech Lake will be the end of the peaceable kingdom," warns Mr Trudeau. "In vain, we would have dreamed the dream of one Canada."

Breaking with the past, the accord recognises Quebec as "a distinct society." Mr Trudeau and his followers believe nationalist governments in the provinces will use the clause to justify new powers over language, education, culture and other areas, even to establish their own foreign service.

The accord gives all provinces more powers, speeding the process of decentralisation in a country where the regions already have substantial power. The provinces will now have a say in appointments to the Supreme Court, which interprets the constitution, and to the Senate, whose appointed members can thwart the will of the Commons.

Provinces will be able to opt out of national social programmes, such as child-care or job-training, with compensation, providing they meet national standards. The outcome may well be different programmes in different provinces, the birth of 'a checkerboard Canada', as some would have it.

In addition, each province will have a veto over changes to federal institutions. Reforming the Senate, for example, will be well-nigh impossible because unanimity among the provinces has historically proved elusive.

More important, the accord entrenches annual federal-provincial meetings, which could become a forum for the provinces to seek more powers.

The most visible consequence of Meech Lake is to make the premiers pivotal in national decision-making. The fear is that Canada will become a country run by committees, that premiers, each pursuing their own agendas, will champion parochial concerns. In the new Canada, national may mean regional.

Critics call Meech Lake a "power grab" by provincial potentates. They see a dramatic change in the role of the national government, which will make it less able to promote a national sense of identity, a critical role in a society next to the US.

Supporters of the deal say the courts will interpret 'distinct society' narrowly. They acknowledge a shift in power but argue that concessions were necessary to satisfy Quebec and strengthen the regions. As long as Quebec was isolated, they argue, constitutional reform was incomplete.

With the re-election of Mr Mulroney, the battle of Meech Lake may be just beginning. In Manitoba, the minority Conservative government supports the deal but could fall if it puts the question to its legislature where the opposition Liberals and New Democrats vow to defeat it.

In New Brunswick, Liberal Premier Mr Frank McKenna says he wants the accord reopened to protect minority language rights and women's rights. Mr Mulroney and the other provinces refuse to reopen the accord; they say that would destroy it. Instead they offer to address new concerns in the next round of constitutional reform, which would begin after Meech Lake.

The Prime Minister, a native Quebecer, warns that killing the accord would revive the independence movement which once convulsed the province. Moreover, he says that another government, more militant than the Liberals, would demand a higher price for its support.

Andrew Cohen

ECONOMY

Painful adjustments to new era of tariff free trade

FINANCIAL MARKETS gave their own blunt advice to Canadian voters in the run-up to the November 21 general election. Each time opinion polls pointed to a Liberal win or even a minority Conservative government, the Canadian dollar sank and foreigners dumped shares on the Toronto stock exchange.

The gyrations demonstrated the near-unanimity among investors, economists and business people that, while views may differ on the likely benefits to Canada of free trade with the US, the economy will in the long run be better off with the deal than without it. In the first four days after the Tories' decisive election victory, the Canadian dollar surged to a seven-year high of 84 US cents.

Ironically, the burst of euphoria may be somewhat premature. Canadians will probably have to wait at least two or three years – possibly a lot longer – before they start to reap the advantages of the gradual dismantling of tariff and some non-tariff barriers with their biggest trading partner.

For one thing, the adjustment to free trade will be a long and, for some sectors, painful experience. Data Resources of Canada, a Toronto economic consultancy, noted in a recent forecast that "the elimination of tariffs, which are higher for Canada than for the US, will first lead to a larger jump in imports than in exports. The benefits of increased productivity,

Each time opinion polls pointed to a Liberal win the Canadian dollar sank and foreigners dumped shares on the Toronto stock exchange

restructuring and specialisation will add to growth later."

Canadian businesses face the added challenge of having to adjust to free trade as a six-year economic expansion shows signs of running out of steam.

Gross Domestic Product grew by an average of 4.3 per cent a year (at constant prices) between 1983 and 1987. It is expected to expand by roughly the same again this year. But economists almost unanimously predict a significant slowdown in 1989, with output rising by no more than 2-2.5 per cent.

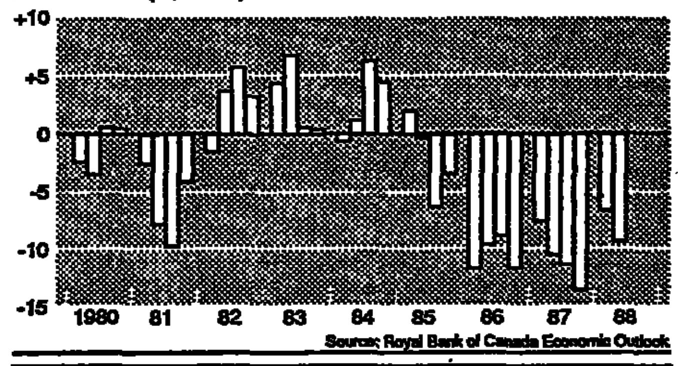
Consumer spending, a mainspring of the long upswing, has already begun to lose much of its vigour. The personal savings rate is at its lowest level since the early 1970s, and wages have, on average, barely kept pace with inflation.

The end of an unprecedented housing boom is also in sight. Supply is at last catching up with demand, and rising interest rates have started to discourage buyers. Royal Bank of Canada expects housing starts to drop from their 1987 peak of 245,000 units to 212,000 this year and 185,000 in 1989.

Government policy is also

Current account balance

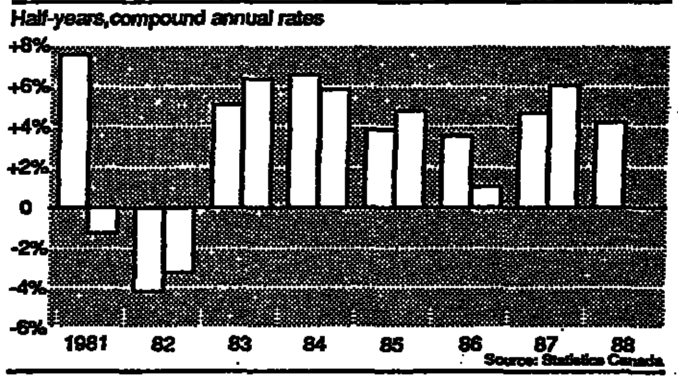
At annual rate (C$ billion)



Source: Royal Bank of Canada Economic Outlook

Real GDP growth

Half-years, compound annual rates



Source: Statistics Canada

unlikely to be expansionary. Since late 1987, the highest priority of the Bank of Canada's monetary policy has been to lean against the winds of inflation which typically gather force in the late stages of an economic upswing.

Chartered banks' prime lending rate has climbed from 9.75 per cent after the stock market crash to 11.75 per cent at the beginning of December. The gap between US and Canadian interest rates has widened appreciably, helping to lift the Canadian dollar from just below 79 US cents at the beginning of this year to its 84 cent level in early December.

Were it not for heavy intervention by the central bank to dampen exchange rate volatility, the dollar would have climbed even faster. Ottawa's foreign currency and gold holdings have soared from $6bn in mid-1987 to $14.7bn at the end of September 1988.

These reserves will be a useful nest-egg for the Bank of Canada to draw on if it decides to try and ginger up business activity during the slowdown expected next year and in 1990. With such sizeable reserves, the Bank may be able to narrow the US-Canada interest rate gap appreciably for a while, and at the same time maintain a relatively stable exchange rate.

The fiscal policy of the second Mulroney government will become clearer when Mr Michael Wilson, the Finance Minister, presents his next budget, probably in March.

Canadian businesses face the challenge of having to adjust to free trade as a six-year economic expansion shows signs of running out of steam

Although it was barely discussed during the election campaign, the budget deficit and a fast-growing national debt are pressing concerns to watchers of the Canadian economy. Both the IMF and the OECD have expressed misgivings in the past year about Ottawa's tardy progress in reducing its budget shortfall.

The federal government expects a deficit of $28.9bn in the year to March 31 1989, virtually unchanged from 1987-88. A shortfall of that magnitude will lift public debt to $321bn, a fivefold increase over the past decade. The debt has ballooned during that period from 25 per cent to 54 per cent of GDP, and interest charges now gobble up almost one-third of federal government revenues.

Tory ministers (with the notable exception of Mr Wilson) made lavish spending promises earlier this year in anticipation of the election call. The commitments included: drought relief for farmers; a government-funded day care programme; loan guarantees for development of the Hibernia oilfield off the coast of Newfoundland; and financial support for two big new oil projects in Alberta.

The C D Howe Institute, one of Canada's premier economic think-tanks, calculates that the Tories' election promises, if implemented, will add C$3.8bn to the national debt over the next four years.

It observed in a recent study that "not only does the increasing pressure of interest payments threaten the next government's flexibility in dealing with an economic downturn, or providing the new public services that an ageing and increasingly environmentally conscious population will demand, it also makes the government's plans ever more vulnerable to changes in interest rates."

Mr Wilson has said that the cost of the Tories' pre-election pledges are covered by reserves built into existing government spending estimates. On the other hand, several assumptions in his last budget – including the level of interest rates and oil prices – have turned out to be over-optimistic.

On balance, it will come as no surprise if Mr Wilson's 1989 budget follows the pattern of most others he has tabled since taking over the finance ministry four years ago. He is expected to warn gravely again of the need for restraint in government spending – and at the same time to finance the public sector's ever-growing demands by asking taxpayers to dip deeper into their pockets.

Bernard Simon

David Owen reports on a country's "glorious obsession"

Pact to encourage closer integration

BARRING unforeseen last-minute hitches, Prime Minister Brian Mulroney's decisive election victory has ensured the prompt Canadian ratification of the US-Canada free trade agreement, clearing the way for the deal to go into effect as planned on, or shortly after, next January 1.

The pact will eliminate by the end of 2000 virtually all remaining tariffs on trade between the world's largest two-way trading partners. It will also set up a new system of bi-national panels which will assess whether or not trade actions taken by either side are in accordance with existing law.

Proponents of the deal argue that it will significantly improve Canadian access to the vast and lucrative US market. Opponents say that it impinges unacceptably on Canadian sovereignty.

Though treated with supreme indifference in the US, the agreement has acquired the status of a "glorious obsession" in Canada, dominating the front pages of newspapers and inspiring some uncharacteristically vituperative slogans from "pro" and "anti" factions alike.

The document has been portrayed as anything from the death sentence of Canada as an independent nation to a passport to future prosperity. Mr Jacques Parizeau, leader of the separatist Parti Quebecois, even supports it because he believes it will weaken Canada and hence further the cause of Quebec independence.

Now that Canadians have collectively pronounced their verdict on the agreement in an election, prosaic reality may finally begin to supersede hyperbole in assessments of its impact. This is likely to be gradual, limited and hard to quantify. The average Canadian will not, as one cartoonist suggested, wake up on the morning of January 2 with an uncontrollable urge to buy a hand gun.

True, the deal will, as its opponents contend, result in some job losses as companies in hitherto cosseted industries – such as consumer goods, food processing and textiles – are obliged to restructure to remain competitive. It will also, as its proponents assert, create opportunities from which many Canadians will benefit. It may even make two exceptionally prosperous nations marginally wealthier.

Ultimately, however, it will merely accelerate the economic integration of two neighbours who have been growing steadily more interdependent over the years.

Already close to 80 per cent of heavily trade-dependent Canada's exports are destined for the US market. This proportion has tended to increase over the years, despite initiatives aimed at diversifying trade flows.

These have ranged from the so-called Third Option, formulated in response to tough protectionist measures introduced by the Nixon administration in 1971, to recent visits to the Far East by Premiers Peterson and Vander Zalm. In addition, fully 80 per cent of goods crossing the common border do so duty-free.

Of course, it will now be impossible to assess how grave circumstances would have become had Canadians rejected the deal and the US protectionist bandwagon gained further momentum, reducing Canadian access to this critical market.

It nonetheless remains the case that the pact's importance may turn out to be mainly symbolic: concrete proof that Canadians – after much inner turmoil – have expressed a commitment to freer trade, following a litany of failed previous attempts to put trade relations with their powerful southern neighbour on a more systematic footing.

Nor does it now seem likely that the agreement will assume the role of international blueprint that its protagonists at first envisaged.

For one thing, bilateral agreements are deeply mistrusted in the multilateral forum of the General Agreement on Tariffs and Trade (Gatt). Even in ostensibly benign regional form, they have the potential to undermine multilateral initiatives.

The US-Canada deal, for example, recasts the so-called Auto Pact – which has governed automotive trade between the two countries since 1965 – as a private club consisting of the three big Detroit-based manufacturers. The dual undertakings of Canada not to allow additional companies producing vehicles domestically to qualify as eligible manufacturers and of the US not to introduce comparable programmes "without consultations" appear to scupper the ambitions of foreign-based manufacturers such as Honda and Hyundai to join.

In addition, only a limited amount was achieved in areas that might have proved of broader application, such as subsidy definition and the initiation of dumping actions.

However, the existence of the pact does at least give the US and Canada something of a fall-back position should the Uruguay round of the Gatt fail to yield further liberalisation

Meanwhile, it seems safe to assume that the agreement will remain a topic of hot debate in Canada. Despite Mr Mulroney's conclusive election victory, fully 52 per cent of the electorate implicitly rejected the deal by voting for the New Democrats or the Liberals.

Events such as the appointment of those who will sit on the putative bi-national panels are calculated to keep public interest high. So is the long period of negotiations envisaged to hammer out a common approach to dumping and subsidies.

These talks will probably still be ongoing when Mr Mulroney next decides to ask the country to extend his mandate. In the interim, the Opposition can be expected to take full advantage (as it did in the recent election campaign) of any hint – however spurious – that Canada's generous social or regional development programmes might be branded unfair subsidies.

In addition, the trade deal will probably become, by its very existence, a favoured scapegoat on which to pin blame for the full gamut of economic ills.

This was demonstrated within two days of Mr Mulroney's re-election, when Gillette Canada revealed plans to close its two Canadian facilities. Though the move was precipitated largely by the cost of fending off unwelcome takeover bids, free trade opponents maintain vehemently that the closures are a portent of things to come.

The timing of the announcement was certainly unfortunate from Mr Mulroney's viewpoint. With an economic slowdown projected and the government budget deficit unacceptably high, the Prime Minister may find himself repeatedly downplaying similar outcries as his second term in office progresses.

The trade deal will, as its critics say, result in some job losses as companies restructure to remain competitive. Ultimately, however, it will accelerate the economic integration of two neighbours who have been growing steadily more interdependent over the years

Canada's merchandise imports (% of total)

	US	EC	Japan
1986	67.1	10.7	6.6
1985	69.0	9.6	5.7
1984	69.6	8.4	5.8
1983	70.0	7.6	5.7
1982	67.9	8.2	5.0
1981	66.5	7.7	6.0
1980	67.5	7.8	3.9

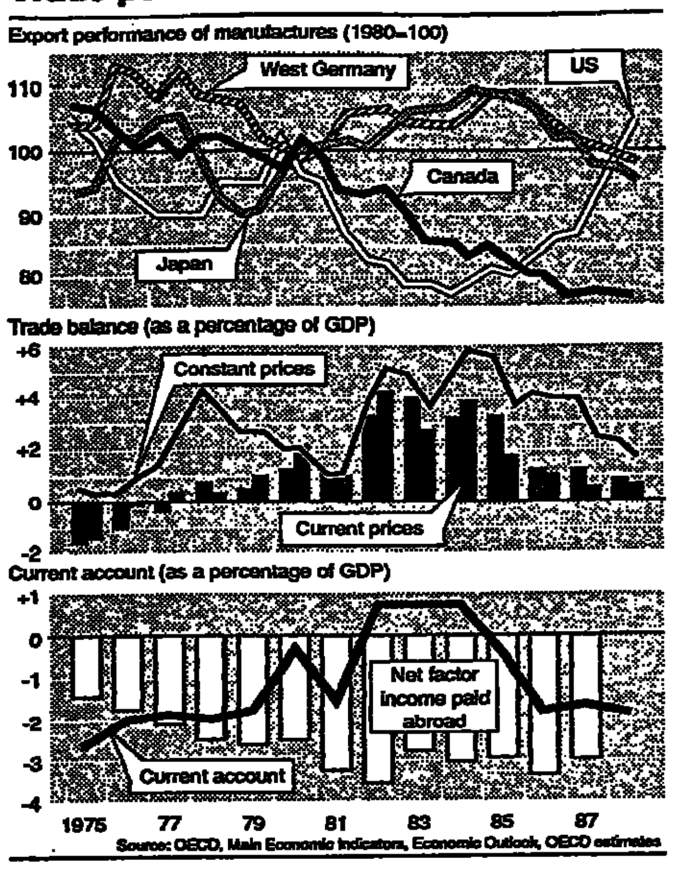
Source: IMF

Canada's merchandise exports (% of total)

	US	EC	Japan
1986	74.8	6.4	4.7
1985	75.2	6.4	4.7
1984	73.4	6.1	4.9
1983	70.2	7.2	5.0
1982	65.3	8.8	5.2
1981	63.9	10.0	5.0
1980	60.6	12.0	5.5

Source: IMF

Trade performance indicators



Source: OECD, Main Economic Indicators, Economic Outlook, OECD estimates

FINANCIAL SERVICES

Caution prevails as the builders move in

THE BUILDERS have been hard at work on Canada's financial services industry. So far, they have knocked down more than they have put up: deregulation, in the form of the "Little Bang", has cleared away the four main pillars, allowing banks, securities companies and trusts to do each others' business. The wall with the neighbours is due to be removed next year by the Free Trade Agreement (FTA).

The main focus of activity has been the securities industry, as banks, trusts and overseas institutions moved in to claim their share of the goodies. Five of Canada's six major banks bought into five of the major securities companies, and other investment companies sought links with either foreign banks – such as Burns Fry, which has a link with Security Pacific of the US – or foreign securities companies, such as Alfred Bunting, which has a tie-up with SG Warburg of the UK.

The shine was quickly taken off the new acquisitions by the Crash of October 1987. Some of the securities companies were halfway through negotiations on acquisition; In other cases, banks had just bought prestige companies for up to 200 per cent of book value for goodwill.

The securities industry has been left high and dry by the Crash. Commission revenues are down by 44 per cent, and new equity financings are down by 86 per cent.

The Crash was only one reason why deregulation has not been the defining event that it was in the UK. Canada's reworking of its financial system appears to be not as thoroughgoing as Britain's because many of the changes had already occurred. "We already had investment banks and dealers fully integrated; we already had US-style structures," says Mr Donald Johnson of Burns Fry.

"Second, there was a lot of foreign competition, especially from New York. Third, we already had unfixed commission rates. It was appropriately called Little Bang."

The Crash showed that the line between opportunity and risk in the new financial services industry was thin indeed. This was a foremost consideration for Canadian Imperial Bank of Commerce, which had devised a vertically divided corporate structure to cope with the problem three years before deregulation.

"That put us in a position to maintain our corporate governance, regardless of what type of financial institutions we got into the future," says Mr William Fullerton, President of Canadian Imperial Bank of Commerce.

Toronto Dominion Bank chose not to purchase a securities subsidiary *at all*, preferring to work with its own discount brokerage. The cost was one factor – "We thought the franchise was overvalued," said Mr Glen Baillie, President of Corporate Finance and Treasury – but they are also concerned about the match with the rest of their business, especially their existing discount broker, Green Line.

The structure that will emerge from the post-Crash rationalisations and mergers is still very opaque

Mr Michael Cornellisen of Royal Trustco, the Toronto based trust with links to the Trilon empire, also had his reasons for staying out of securities. One was a prudential concern: "Those of us who have consciously chosen to stay out of the brokerage game will be seen over time as the independent providers of objective financial advice," he claims.

Mr Cornellisen is sceptical about the value of much of the merger activity that has taken place between the banks and securities industry. "The banks' purchase of stockbrokers was an attempt to recover business that they thought they'd lost to the underwriters," he says. But creditworthy borrowers can go straight to international markets now, he says, and "a lot of that business is handled by the international stockbrokers."

Mr Cornellisen says that he expects the banks to move into trusts after the Trust Act is passed, and that many of the smaller trusts may not survive without merging and consolidating their activities. "Many of the trusts are barely large enough to achieve the critical mass necessary to take part in the clearing system," he says, "and to afford to tackle the high volume and low margin businesses."

Coping with foreign competition, in their home markets and abroad, will be one factor determining the size and shape of the evolving structure. *Foreign competition is certainly* not new to the country, which hosts some of the largest of the world's financial institutions. But free trade will open the floodgates still further, allowing US companies almost completely free access to the Canadian market.

Some foreign banks have made a successful entry to the retail market, such as Hong Kong and Shanghai Bank, which bought the ailing Bank of British Columbia. But in general, foreign banks find Canada's retail market very competitive.

The barriers to entry are considerable, with a population of 35m dispersed over one of the largest countries in the world making the costs of maintaining retail networks exorbitantly high.

But these networks, which will increasingly duplicate each other, are likely to be re-examined by the Canadian banks and trusts as they seek to cut costs. Offering new services, like securities sales and mutual funds, will be one way to make the retail network pay. Central Guaranty has already led the way, putting a unit of its securities subsidiary, Marathon Brown, into one of its Toronto branches, and others will follow.

The structure that will emerge from the rationalisations and mergers is still very opaque, but if the Crash has taught anything, it is that expansion brings prudential and commercial concerns. Strategic gains and synergy must sometimes be measured against the bottom line.

Andrew Marshall

Andrew Marshall on the difficult political choices facing the spendthrift Conservative administration

Government sharpens its knife for some choice cuts

WHEN MR Brian Mulroney was returned as Canadian Prime Minister, he must have felt a certain sympathy for Mr George Bush, US president-elect. Like his opposite number in Washington, Mr Mulroney must now confront the task of cutting the fiscal deficit as one of his first priorities; like Mr Bush, his options are limited by political opposition to major changes in the composition of federal spending.

Mr Mulroney has the edge on Mr Bush since the Conservatives control the legislature, but his advantages stop there. Canada's fiscal deficit in 1987 was only C$29.2bn (£13.2bn) compared with US$160bn (£85.8bn) in the US. However, it amounted to a hefty 5.4 per cent of Gross Domestic Product (GDP). Government net debt was 53.1 per cent of GDP in 1987, making Canada's government the second most indebted in the Group of Seven industrialised nations after Italy.

The level of debt imposes a powerful discipline on fiscal policy. Federal interest payments totalled 22 per cent of all spending in 1987, and interest on the debt has been the most rapidly increasing component of spending for several years. Public debt charges have risen from 11.7 per cent of federal spending or 2.2 per cent of GDP in 1977, and are estimated at 24.5 per cent of federal spending in 1988, or 5.45 per cent of GDP.

The build up of debt is the principal reason why the Organisation for Economic Co-operation and Development (OECD) warned in its last annual report that "further reductions in budget deficits are indispensable."

It was a message echoed by private-sector economists and business groups immediately after the federal election. Mr Mulroney and Mr Michael Wilson, his Finance Minister, agree on the destination, but they would probably prefer not to have to start from where they are now.

The Government came into office in 1984 intending to reduce its role, streamline the bureaucracy and lower the debt. Its 1988 fiscal plan stated the objectives: "To reduce the growth of the public debt to no more than that of the economy over the medium term; that is, to stabilise the debt to GDP ratio; to achieve continuing sizable year-over-year reductions in the deficit; to achieve substantial year-over-year reductions in the Government's financial requirements; and to ensure that the greater part of fiscal progress is achieved through effective expenditure restraints and good management."

Substantial reductions in the deficit have been made since 1984, when it stood at C$38.5bn. However, as the OECD noted: "Official estimates of changes in the primary structural balance [that is, corrected for cyclical movements and excluding net interest payments] suggest that about three-quarters of this reflected policy action and that most of the adjustments took place early in the period."

A major question underlies the problem of curbing spending: are Canadians prepared to pay the price of stronger defence, social services, industrial growth and agriculture?

Spending was controlled by eliminating the National Energy Programme, de-indexing sub-benefits, containing public sector employment and cutting capital spending. This kept expenditure growth to 2.1 per cent and 4.3 per cent in 1985-1986 and 1986-1987 respectively, below the rate of revenue growth and economic growth.

However, the figure for 1986-87 was a percentage point above the budget estimate. In 1987-88 spending grew by 6.9 per cent, well over the target of 5.3 per cent. Progress on the deficit was maintained only by surging revenues.

The Government insists that it is still within its fiscal framework, and that no unforeseen spending cuts are required. However, high growth and strong tax revenues have kept the fiscal train on the tracks *and reduced the debt to GDP* ratio. Fiscal discipline has started to slip and the Conservatives cannot expect the economy to be on their side for the next five years.

There are two reasons why spending has started to edge out of control. First, though the economy has been very strong, Canada's farmers have suffered from declines in world agricultural prices.

Agricultural support spending in Canada is delivered through a variety of programmes, from transport subsidies to credit concessions. Spending nearly doubled between 1985-86 and 1987-88 to C$6.1bn, according to the OECD. The Special Canadian Grains Programme was introduced in 1986 and payments under the Western Grain Stabilisation Act also increased.

Farm spending is a considerable burden on expenditure, but attempts to curb it would be politically inexpedient in a country where 5 per cent of the working population are involved directly in agriculture and large parts of the banking system and the rest of the economy are tied to farm economies.

However, the Conservatives also have much of their support in farming communities in the western provinces and Ontario. The Government can only hope that international negotiations on agricultural trade and rising world prices will reduce the bill.

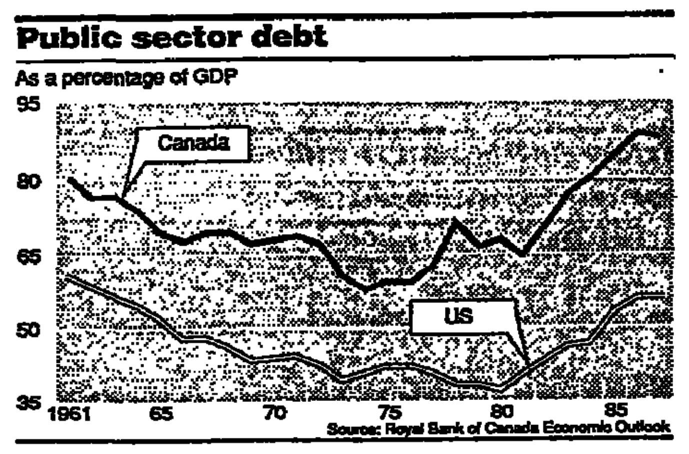
Second, the Government's fiscal zeal has been blunted. An embarrassing incident early in its term, when Canada's senior citizens revolted against an attempt to curb indexation on their benefits, made the Government more cautious. And the announcement of elections earlier this year led to a fresh bout of spending initiatives. Though Mr Wilson says this year's spending can be accommodated, at the very least it shows the degree to which deficit cutting slipped on the agenda as free trade assumed centre stage.

Other policy initiatives will exacerbate the situation. The Government plans a new child-care scheme and has considerable commitments to defence spending as a result of the 1986 defence white paper.

The Canadian Tax Foundation says that "a conservative estimate of the real budget growth required for various re-equipment projects is 4 per cent over 15 years, after inflation." A cabinet review every autumn will consider extra funding, including the C$10bn-C$12bn required for Canada's planned nuclear submarines. Backing down on defence commitments would be politically costly.

Fiscal realities may catch up with Mr Wilson as soon as next spring's budget. For 1989-90, projections show spending set at C$134.9bn, a rise of a bare 4.3 per cent on 1988-89. Statutory programmes are calculated to rise by 4.6 per cent, which involves projecting a minimal rise in unemployment.

Non-statutory programmes, over which the Government has more control, are projected to rise only 3.9 per cent, with cuts necessary in a broad range of programmes. Expenditure actions introduced in the budget are scheduled to reduce non-statutory spending by C$300m. Even then, the deficit would decline from C$28.9bn in 1988-9 to only C$28.6bn in 1989-90.



So if progress on deficit is to be maintained, either revenues will have to rise or spending will have to come down. Although Mr Mulroney did not echo Mr Bush in promising not to increase taxes, with the second phase of tax reform under way, he is unlikely to want to tinker with tax rates or new taxes.

However, looking for cuts would probably involve reassessing Canada's social programmes. Social spending and unemployment insurance together account for about 30 per cent of federal spending, according to the Canadian Tax Foundation. A parliamentary report shows these functions as the fastest-growing component of spending over the past eight years, after interest on the federal debt.

Since his experience with the senior citizens, Mr Wilson is unlikely to tangle with old-age security payments, which account for about C$16bn.

However, unemployment insurance, which costs about C$12bn or 3.3 per cent of expenditure, is a possible target. Pressure to change the system led to the 1987 Forget Commission Report, which recommended tightening eligibility requirements and reducing the level and duration of benefits.

The Government shelved the report, but a parliamentary estimate earlier this year said that "implementing the recommendations of the Commission could have the same affect on cost as a 3 per cent drop in unemployment."

For Canadian taxpayers and voters, a fundamental question underlies the problem of expenditure restraint. Are they prepared to pay the price of stronger defence, social programmes, industrial development and agriculture? Canada has a tradition of central government involvement in the economy, balancing regional and social inequities.

However, though the levels of taxation and expenditure are lower than many OECD countries, they are higher than those of the US, and this may determine the answer. Much of the furore that surrounded this year's election was over the fate of social programmes under free trade.

The Government maintains that they were not under threat from the letter of the agreement. However, Canadian industry may increasingly feel that with their costs increased by taxation and by government industrial and agricultural policies which distort costs, they have a vested interest in seeing expenditure reduced. Though an assault on social spending will be highly charged politically, next year may see Mr Wilson sharpening his knife again.

FOREIGN INVESTMENT

Mixed blessings of lifting barriers

DON'T TRY to explain the benefits of free trade to the employees of Gillette Canada. Workers at the company's plants in Toronto and Montreal were told on November 24 that the US multinational was cutting its operations with the loss of 600 jobs and consolidating production into its Boston operations.

Supporters of the deal say that by reducing investment obstacles and securing for Canadian access to the US market Canada has guaranteed more foreign direct investment (FDI) from the US and elsewhere. The deal's opponents in the unions and the opposition Liberal and NDP parties fear that companies which have set up in Canada to dodge tariff barriers will close and move back to the US when those barriers are removed.

Gillette, which has been undergoing a comprehensive corporate restructuring for two years, insists that its decision was unrelated to the free trade deal. But employees and others drew their own conclusions from the fact that the agreement will eliminate tariffs over 10 years on razor blades, razors and pens which the factories produce, making it cheaper to import them.

"The election hasn't been over for two days, and the Americans are already starting to haul their operations back to the US," said Ms Shirley Carr, president of the Canadian Labor Congress.

Canada's historical dependence on American capital has been a subject of concern for two decades. In 1984, in one of its first actions, the Government of Mr Brian Mulroney, the Prime Minister, dismantled the Foreign Investment Review Agency, which was directed against foreign investment, replacing it with a far more liberal regime under the Investment Canada Act.

There has been a considerable increase in FDI in the past three years. In 1981, gross outflows of FDI exceeded gross inflows as the National Energy Programme took effect and foreign capital was repatriated. Since then, with an interruption in 1985, net foreign investment has grown steadily to more than C$8bn in 1987 when inflows reached a record C$9bn. FDI had declined as a percentage of GDP throughout the 1970s and 1980s and only started to increase again in 1986, reaching nearly 19 per cent of GDP in 1987.

In January 1989, the free trade agreement with the US will change the environment for investment once again for US investors. The deal raises the review threshold for US investors by stages to $150m in 1992. This would reduce the number of companies covered by regulation to approximately 300 from 7,000 today. Screening of indirect takeovers involving US companies will be ended completely in 1992.

Canada will retain some controls over US investments. Ottawa can still demand that a US buyer transfer technology to and retain R & D in its Canadian subsidiary. The 51 per cent requirement of Canadian ownership on takeovers of healthy energy companies remains in place. And Canadianisation rules in book publishing and other cultural industries are unaffected.

The Free Trade Agreement is not likely to reverse the trend of the relative decline in the size of US investment, albeit from a position of dominance. The US shift from a creditor nation to a debtor, and the increased focus on investment in Asia, has reduced the scale of new investment flows, though retained earnings have topped up investment stocks.

With C$56bn of FDI in Canada in 1987 and some 35,000 subsidiaries, the country is host to the largest concentration of US investment in the world. But the percentage of American capital in the total FDI stock has slowly declined from 79 per cent in 1976 to 75 per cent in 1986.

Of the top 50 foreign companies in Canada in 1987, 32 were American, compared with 36 in 1984. Over the same period, the number of European companies increased from eight to 10, and there are now seven Japanese companies in the list against six in 1984.

This trend is likely to increase. American companies can service most markets in North America from existing plants, whether in the US or Canada. The companies with the strongest incentive to invest in new plants will be those from Europe and Asia, which can gain the benefits of secure access to the American market and Canadian resources.

European investors have all increased their share of FDI in Canada. But it is money from the Far East which has gained the most attention: investment from Hong Kong in real estate, energy and banking has been growing rapidly as has the influx of capital from Japan into automobile manufacture, resources and real estate, though both are still small in absolute terms.

With money pouring out of Hong Kong in the run-up to the change of sovereignty in 1997, and Japan emerging as the world's largest source of capital, the Canadian government will be hoping that some of the investment will flow their way.

Yet under the Free Trade Agreement, the investment regime discriminates against investors outside North America. There may be growing pressure from outside the country and from within business circles for reforming the Investment Canada Act.

Andrew Marshall

Jonathan Manthorpe on Government clashes with the indigenous community

An increasingly divided camp

IN THE goldrush city of Whitehorse a few weeks ago, government officials came to an agreement which will give 6,500 Indians ownership of an area of land in the Yukon Territory.

Under the agreement, the Kutchin, Tilingit and Tagish Indians from 13 bands will receive some 41,000 square kilometers in Canada's northwestern mountainous fringe, compensation of $230m for relinquishing their claim on other lands, and the right to a substantial degree of self-government.

It was the fourth major land claim agreement which governments have made with Canada's indigenous peoples in recent years and the second major accord this year which will place under indigenous jurisdiction vast tracts of North America.

From these successes it might appear that after generations of paternalism and neglect, Canada is finally doing the right thing by giving its indigenous people an assured economic base and the authority to manage their own lives.

The picture, however, is deceptive. In past months, Indians across Canada have demonstrated through a campaign of militant – and sometimes violent action – their frustration with the Government.

They speak of the racism in the arbitrary way in which the authorities often deal with them, and the hypocrisy in the way Canada, which makes much of its reputation as a champion of human rights on the international stage, allegedly abuses and ignores the rights of its indigenous people.

The two sides appear to be travelling diverging paths. The indigenous people look at the abysmal social conditions in their communities – high suicide rates, alcoholism, low standards of education, inadequate housing, sparse health care facilities and little work – and believe the answer is to reclaim as much as they can of their land and style of life before the coming of European settlers.

The Federal Government in Ottawa and the provincial authorities look at the same analysis of social and economic conditions and believe that the indigenous communities must slowly but surely be drawn into the mainstream of Canadian society.

The indigenous people, the governments argues, can have land and the limited right to manage their own affairs. What they *cannot* have is the right to establish parallel nations outside the law and constitution of Canada.

Ottawa has therefore set a policy which avoids the large question of sovereignty for the indigenous community and which attempts to deal piecemeal with land claims and requests for more autonomy. But it is a slow and tedious process which leaves many Indians impatient.

At the current rate of resolution it will be well into the next century before the 300 claims now before the Government will be fully reviewed.

The large land claim agreements of the past few years have been relatively easy to resolve. They are in the far north where the white population is the minority and the economic and cultural clashes

Transporting logs on the Mackenzie River Delta in Canada's northwest territories. The nearby town of Inuvik boasts a mixed society of Indians, Eskimos and the settler community. Buildings on stilts or rafts have made the town a tourist attraction

less pronounced than in the south.

In these isolated regions, the influences of white society are minimal and many indigenous people retain the old skills of the traditional hunter-gatherer economy.

But it is a measure of how slow progress can be that it took 15 years to conclude the Yukon agreement – and that is only an outline whose details must now be filled in.

In the south, where most of Canada's 1.5m indigenous people live, it is more painful for the authorities to be generous and the conflicts are more brutal.

Judging by the land deals the Government has signed with the Indians, it would appear that the authorities are finally doing the right thing. The picture, however, is very deceptive. In recent months the Indians have stepped up their demands and become more militant

In the recent election campaign there was a concerted effort by Indians to add their grievances to the public agenda, with little success. The Canadian public does not give any priority to their concerns.

This had led some indigenous people to conclude that only dramatic, direct action will force Canadians to take notice. As rebellions go, these acts are on a small scale, but they are startling when they come from Indians who have been traditionally docile and who have viewed with a fatalistic acceptance the works of Ottawa.

Indian leaders such as Georges Erasmus, national chief of the 350,000-strong Assembly of Eirat Nations, have warned Ottawa repeatedly that it may be facing its last opportunity to find negotiated settlements. The next generation of Indian leaders, he says, may see violence as the only way of getting attention.

There seemed to be truth in his warning when, in June this year, 200 heavily-armed officers from the Royal Canadian Mounted Police raided the Mohawk community of Kahnawake just outside Montreal. The police were trying to break up a highly-profitable business in cigarette-smuggling from the US.

Within hours of the police raid, the Mohawk – perhaps the most militant and best organised of the Canadian Indians – had blocked one of the main commuter roads into Montreal with a gravel barricade and manned it with armed members of the Warriors' Society. The stand-off lasted three days.

Soon after, in the barren interior of Labrador, members of the Innu tribe invaded and set up camp in the Nato air force training base at Goose Bay.

The Innu, the last nomadic Indian tribe of North America, claim that low-level flights by tactical fighters have driven game from their traditional hunting grounds and caused deaths and accidents among the Indians.

Far to the west, in northern Alberta, the Indians of Lubicon Lake blockaded roads into their traditional territory, which cover rich oil-producing seams, to try to jolt forward 50 years of inconclusive negotiations over their land claim. Reporters and photographers from all over the world gathered at the Lubicons' log road blocks, but police waited until boredom and dwindling expense accounts sent the media home before raiding the community and arresting 22 people.

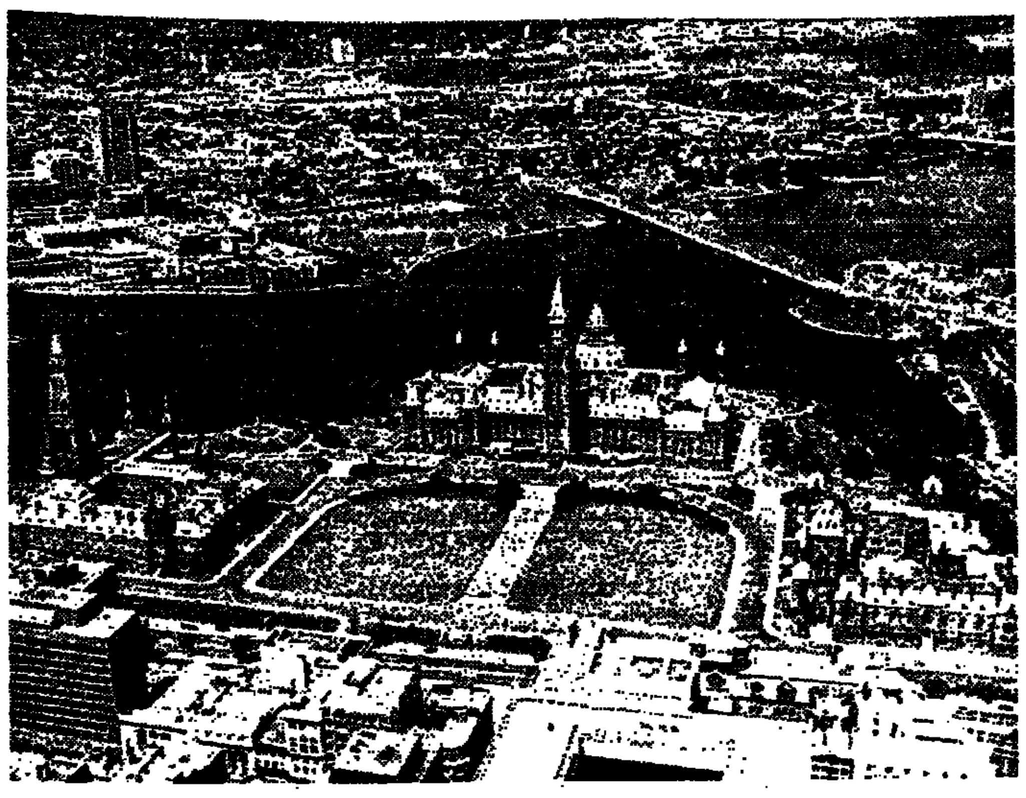
The land claim remains unresolved, as does a similar situation at Tomagami, in northern Ontario, where Indians have blocked logging roads for months and severely disrupted the local white economy on the grounds that they have a claim to the forest being felled.

All over Canada, but especially in the Maritime provinces and in British Columbia, there are regular confrontations, sometimes violent, between Indians and wildlife officers over Indian refusals to adhere to game-protection laws and hunting seasons.

The Government appears to believe that tough police action and continued negotiations on individual claims will contain the situation, but it is noticeable that indigenous organisations are beginning to elect more militant and outspoken leaders which suggests Canada is in something of a race against time.

David Owen on Ontario's impressive record

Continuing growth confounds sceptics



Canada's Parliament Buildings overlooking the Ottawa River, Ottawa, Ontario

FORECASTS OF the imminent demise of the six-year-old Ontario economic boom have proved greatly exaggerated.

The economy of Canada's most powerful and populated province continues to steam ahead, with real growth for 1988 likely to weigh in at a shade under 5 per cent, against 4.7 per cent a year ago.

Growth has been fastest in the extensive metallic mineral sector, with non-ferrous metal prices so high that companies such as Toronto-based Inco, the world's largest nickel producer, have been making more money than they know what to do with.

Royal Bank of Canada anticipates that the value of the province's metallic mineral output will jump more than 40 per cent this year to C$5.8bn (£2.6bn), after the 18.6 per cent increment registered in 1987. The value of chemical shipments has also soared due to the steepest price hikes for petrochemicals in more than a decade.

The most critical expansion has been in the C$40bn transportation sector, where growth is expected to reach as much as 11.5 per cent after last year's pronounced contraction. The increase is due to the resumption of output at General Motors' enormous Oshawa complex and to the start-up of Chrysler's Bramalea plant. The expected opening of new GM-Suzuki and Toyota production outlets in 1989 should ensure that unit vehicle production in Ontario continues to climb for the foreseeable future.

The motor industry's expansion has also had important spin-off benefits in supply industries such as primary metals. Strong demand for steel underpinned growth of 12.5 per cent in first-half primary metals shipments. Forecasters project an increase of as much as 13.7 per cent for the year as a whole.

In fact, Toronto's Bay Street-centred financial services industry is one of few elements of the provincial economy to be enduring lean times, as a result of the ongoing shake-out from deregulation and the still low levels of interest in equities markets. Even here, the Big Six Canadian banks enjoyed a bumper year, bouncing back from 1987 when hefty loan loss provisions obliged them to report over C$1bn of red ink.

As they put the finishing touches to their Christmas shopping, most of Ontario's 9.2m inhabitants are reasonably content with their lot. Unemployment is down to around 5 per cent, a 14-year low. Real disposable income is higher than in all but two of the countries in the Organisation for Economic Co-operation and Development (OECD). The cost of living in Toronto, the province's largest city, is among the lowest of the major business centres of the industrialised world. The so-called "golden horseshoe" which stretches from the steel town of Hamilton to Oshawa along the shores of Lake Ontario has seldom been more golden.

The province's dependence on both the transportation sector - which is expected to grow by 11.5 per cent this year - and the US market will probably increase even further, due in part to the impact of the free trade pact

Most Ontarians are even happy with their provincial government, which is the first majority Liberal administration for 50 years. Since being re-elected in a landslide 15 months ago, Mr David Peterson, the silver-haired and sartorially elegant premier has enjoyed an extended political honeymoon. The sole rumblings of discontent came in the wake of treasurer Robert Nixon's April budget, which raised both retail sales and personal income tax. The increases were deemed necessary to pay for social programmes.

True, the 3.3m or so Ontarians who live in metropolitan Toronto have the city's increasing overcrowdedness, its rising house prices and its worsening pollution to furrow their brows. However, even they have been spared the worst of the violence, poverty and decay that disfigures so many urban centres.

Ontarians should make the most of these salad days. Economists are virtually unanimous in projecting that the Ontario economy really will come off the boil in 1989 and 1990, with growth slipping to about 2 per cent in each year. They base these projections on expectations of lower consumer spending, a fall-off in housing projects and the knock-on effect of the anticipated slowdown in the US.

In addition, structural weaknesses are developing in the provincial economy that could make Ontario increasingly vulnerable to an abrupt decline in prosperity in years to come.

In a nutshell, the province is becoming increasingly dependent for its well-being on one sector – the automotive industry – and on one export market – the US.

In 1986, transportation industries accounted for 27.4 per cent of the value of Ontario's manufactured goods shipments. The US now consumes almost 90 per cent of the province's total exports. "We are far too dependent on the US market and far too dependent on the automotive industry," said Mr Peterson in an interview earlier this year. In the space of 10 months, the Premier has visited both Europe and the Far East as part of a drive to diversify trade flows.

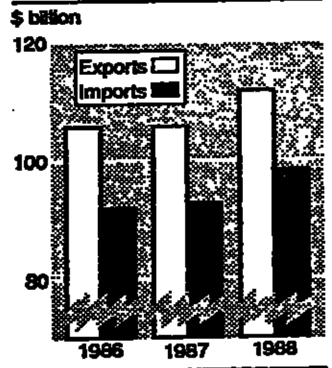
However, the province's dependence on both the transportation industry and the US market will probably increase even further in the medium term, due in part to the impact of the US-Canada free trade agreement.

The deal is expected eventually to spark considerable rationalisation elsewhere in the manufacturing sector, in industries such as food processing (the second-biggest manufacturing sub-sector after the motor industry), consumer goods and low-tech electrical and electronic products.

These industries still consist in large degree of inefficient US-owned branch plants, making a full range of a given company's products exclusively for the Canadian market. As tariffs are reduced, such facilities are likely to be reorganised or closed.

Unless Ontario succeeds in attracting investment from offshore companies prepared to attack the US market from a Canadian base (as it did in the auto sector through duty remission schemes which it has since agreed to phase out), the contribution of these sectors to manufactured goods output will probably stagnate or diminish. If that happens, the contribution of the automotive sector – and the province's vulnerability to softness in US vehicle sales – will increase correspondingly.

Ontario trade



QUEBEC

In bullish mood

DURING LAST month's election campaign, Mr Brian Mulroney, the Prime Minister, used to tell Quebec audiences in his fluent colloquial French, *"C'est le jackpot,"* when he referred to the US-Canada free trade agreement.

Mr Robert Bourassa, Quebec's Liberal Premier, though officially neutral in the campaign, was scarcely less enthusiastic.

The result was that Canada's only predominantly French-speaking province, numbering 6.5m people, gave Mr Mulroney 63 of its 75 seats in the 295-seat Canadian Parliament.

Fuelled by a residential and commercial construction boom and steady consumer spending, Quebec has grown faster than the Canadian economy this year and last, although unemployment, at 9.4 per cent, has remained above the 7.9 per cent national average.

The Conference Board of Canada projects real growth of 4.2 per cent for the country in 1988, with 4.8 per cent growth in Quebec. However, the board is forecasting a dip in the province's performance below the Canadian average next year as housing starts to tail off.

Business in Quebec is bullish about free trade. Mr Bourassa's government hopes to offset the decline in housing projects with C$7.5bn (£3.4bn) to build new hydroelectric dams on northern Quebec rivers and a tax reform package that will put C$2bn in income tax refunds in Quebecers' pockets next spring – about the same time as a provincial election is expected.

A recent opinion poll gave Mr Bourassa's party a 64 per cent popularity rating, compared with 25 per cent for the opposition Parti Quebecois (PQ), now led by Mr Jacques Parizeau, a former provincial finance minister. At a recent convention, the PQ renewed its hard-line stance on independence, a step likely to help the Liberals in the coming election.

Mr Bourassa is an economist trained at Harvard and Oxford. His backing for the trade deal is in tune with Quebec-based businesses ranging from major corporations such as Alcan to the small but growing manufacturers who represent the leading edge of Quebec's entrepreneurial revolution.

The ethereal goal of political independence for the province has given way to a hard-nosed business sense as Quebec's baby boom generation seeks to make its mark at home and in the international market.

The premier is fond of sketching scenarios about "the floating billions" in European and Asian investment capital being drawn to Quebec thanks to improved access to the affluent US market. Hyundai, the South Korean car-maker, is building a C$325m assembly plant in Quebec, with an eye to the US market.

However, Mr Bourassa has a more immediate interest in the free trade deal. The Quebec government is in the business of selling hydroelectric energy. The trade agreement will make it easier for the local utility, Hydro-Quebec, to export power, while sheltering it from capricious US protectionism.

Quebec has grown faster than the national economy for the past two years

On top of the C$7.5bn in hydroelectric construction that has been announced, Hydro-Quebec is negotiating with Newfoundland to build another C$7bn in hydroelectric developments at Gull Island and Muskrat Falls on the Lower Churchill river.

The Churchill river is in Labrador, which belongs to Newfoundland, although Quebec governments show it as part of Quebec, dismissing the border with the notation: "Line drawn by the Judicial Committee of the Privy Council, 1927." New joint developments in Labrador had been blocked by Newfoundland's unsuccessful efforts to renegotiate the 65-year contract for the sale of 5,200 megawatts of power generated at the existing Churchill Falls dam to Hydro-Quebec.

A decision by the Supreme Court of Canada in May upheld the contract, which pegs the price of Churchill Falls electricity at 0.2-0.3 cents a kilowatt-hour until 2041.

Mr Bourassa started the C$13.7bn James Bay hydroelectric development in his first term as Quebec premier from 1970 until 1976, when he was beaten by the independence-minded PQ.

Electricity from the 10,000-megawatt (MW) "project of the century" proved surplus to Quebec's demand as the first of three massive power stations on the La Grande river came into operation in 1979.

Mr Bourassa was re-elected in 1985 on a promise to harness another 12,000 MW of Quebec's 25,000 MW untapped potential. The surplus energy from the original James Bay project has been absorbed, thanks to discounted sales of power for new aluminium smelters, Norsk Hydro's C$400m magnesium plant and other industrial projects, including the Hyundai factory.

Alcan is building a 200,000-tonne smelter at Laterriere near other plants in the Saguenay-Lac St-Jean region, where the company generates its own electricity at an estimated cost of 0.2 cents a KW-hour.

Canadian Reynolds Metals has expanded its aluminium smelting capacity at Baie-Comeau and bought a 25 per cent stake in the 180,000-tonne capacity Aluminerie de Becancour, a joint venture with Pechiney of France, the US-Japanese company Alumax and the Société Générale de Financement (SGF), a Quebec government company.

SGF is talking to Reynolds, Austria Metall, Kobe Steel, Mitsubishi and YKK of Japan about opening another 250,000-tonne smelter near Sept-Iles on the North Shore of the St Lawrence river.

Hydro-Quebec sold surplus power from James Bay to American utilities for less than half the 4.5 cents a KW-hour Quebecers pay. However, those bargain contracts have been replaced by long-term deals with US utilities for 6-7 cents a KW-hour.

Resistance in the US north-east to building new nuclear power plants and a booming economy mean that New York and the six New England states will have a shortfall in electrical power of about 14,000 MW by 2000, Hydro-Quebec calculates.

"We can provide some of that," says Mr John Ciaccia, the Quebec Energy Minister. Quebec also sells power to neighbouring provinces and is talking to the Ontario government about the possible sale of another 2000 MW.

Kevin Dougherty

David Owen on the independent-minded Atlantic provinces

Swimming against the tide

FOR ABOUT 30 minutes on the night of November 21, it looked as though Canada might be poised to elect a Liberal government.

That was while the only results coming in were from the Atlantic provinces. Once the votes started to be counted in populous Ontario and Quebec, the illusion was shattered.

Canada's four easternmost provinces, traditionally its most independent-minded and its poorest, have been turning gradually to the Liberals since April 1986. That was when Mr Joe Ghiz was elected to the premiership of Prince Edward Island (PEI) – Canada's smallest province – overturning a Conservative majority of four seats.

Mr Ghiz's victory was followed 18 months later by an astonishing Liberal sweep of neighbouring New Brunswick. The party, under Mr Frank McKenna, a forceful young lawyer, captured all 58 seats in the provincial legislature, turfing Conservative Mr Richard Hatfield unceremoniously out of office.

Mr Hatfield, a bachelor who made New Brunswick Canada's first officially bilingual province, had been premier for 17 years.

The down-to-earth Mr McKenna has since acquired a degree of recognition on the national stage for his profound reservations with regard to the Meech Lake constitutional accord, which promises to bring Quebec for the first time into the Canadian federal compact. New Brunswick is one of just two provinces yet to ratify the accord.

Locally, Mr McKenna, 40, is perhaps better known for presiding over a 2 per cent increase in the province's personal income tax rate in April.

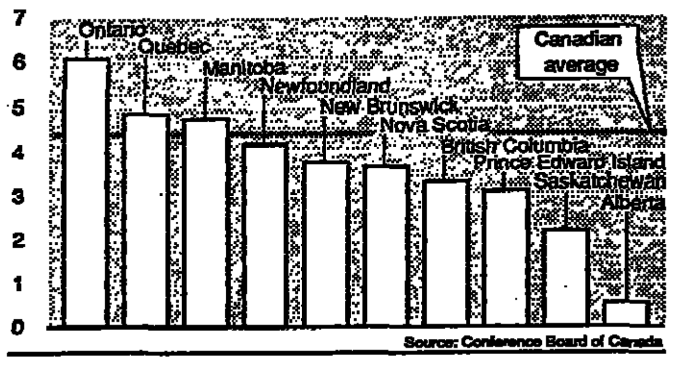
The most recent Conservative premier in the region to run the gauntlet of an election campaign was Mr John Buchanan of Nova Scotia. Unlike his former counterparts in PEI and New Brunswick, the 57-year-old Mr Buchanan survived.

A combination of his own personal popularity, the province's reasonably buoyant economy and the lack of charisma of his main rival Mr Vincent MacLean, the provincial Liberal leader, carried him through, albeit with a much reduced majority.

Mr Brian Peckford, the cigar-smoking Conservative premier of Newfoundland, will be the next to take the plunge, having apparently abandoned prior thoughts of retirement.

Real Gross Domestic Product

Annual average percentage change 1983-7



The irascible former English literature teacher, whose habit of arguing publicly with prime ministers regardless of political affiliation goes down well with his 575,000 constituents, has only 16 months of his latest mandate to run.

This summer's signing of a C$8.5bn (£3.8bn) agreement in principle between Ottawa and a consortium of oil companies to develop the offshore Hibernia oilfield will have done his re-election chances no harm. Hibernia has, after all, been something of a cause célèbre for Mr Peckford ever since the initial oil find was made nine years ago.

According to Mr Gordon Gosse, deputy minister in the province's department of energy, the project's huge concrete base and its main support frame are both to be constructed in Newfoundland. This will create badly needed jobs in the province with the highest unemployment rate (17.7 per cent) and the lowest per capita income in Canada. Overall, the province hopes to attract 20-25 per cent of the C$5.2bn pre-start-up capital cost (making Hibernia the largest capital investment in Atlantic Canadian history). A legally binding agreement to proceed with the project is due to be signed on March 31.

Meanwhile, Mr Peckford's administration is optimistic about having favourable news to convey regarding another long-discussed project before an election is called. Talks are proceeding with neighbouring Quebec about constructing a C$6bn-C$7bn hydroelectric complex in remote Labrador. The negotiations are going well, according to Mr Neil Windsor, the minister responsible.

The economic benefits from projects such as these, the construction of PEI's putative and controversial fixed link to the mainland and the building of a second batch of six navy frigates in Saint John, New Brunswick, will be particularly welcome if economists are right in forecasting slower growth for the region in 1989 and 1990. Conference Board of Canada projections currently call for expansion ranging from 1.9 per cent (PEI) to 2.6 per cent (Nova Scotia) in 1989.

This follows two years of relatively rapid economic expansion. In 1987, unglamorous New Brunswick was Canada's fastest-growing provincial economy.

Buoyant commodities markets have been the main underlying cause of the upturn, with the fishing, forestry and mining sectors all reaping the benefits of higher prices. In its banner year of 1987, for example, the value of New Brunswick's mining output soared by a remarkable 33.8 per cent.

Fishing off the coast of Nova Scotia. The industry supports the free trade deal with the US

Fish markets have now softened considerably from the heady levels attained in 1987. Forest products and, to a lesser degree, metals appear ripe for a fall.

Lower prices will be offset to a degree by higher regional output. In both Nova Scotia and New Brunswick, major new pulp and paper investments are planned. In Newfoundland, production from the Hope Brook gold mine is expected to rise substantially in 1989 from some 66,000 ounces this year. A sharp increase in the province's gypsum output is also anticipated.

The imminently-expected ratification of the US-Canada Free Trade Agreement may also provide a degree of compensation to local producers in all three commodities.

The Canadian fish industry is especially enthusiastic about the gradual elimination of US tariffs on processed fish shipments which the agreement will bring. All major Atlantic Canadian seafood suppliers have devoted considerable attention in recent years to increasing the proportion of their output sold in processed form.

Since the tariff reductions will not apply to other foreign suppliers to the vast and lucrative US market, Canadian companies believe that the trade deal will give them a potentially telling competitive edge.

The upturn of the past two years has had only a limited effect on the region's chronic unemployment problem, due partly to the seasonality of many resource-sector jobs.

In August, unemployment rates in the four provinces ranged from 10.7 per cent in Nova Scotia to 17.7 per cent in Newfoundland (against a national average of 8 per cent). Two years previously, the corresponding range had been from 13.2 to 20.8 per cent.

David Owen

THE WEST

Vulnerable to world trends

BRITISH COLUMBIA'S colourful, Dutch-born Premier Mr William Vander Zalm in February leads a delegation composed of the province's most powerful business people to the World Economic Forum at Davos in Switzerland.

The invitation, secured after some lobbying, will enable Canada's most westerly province to campaign for higher recognition with business leaders who are potential trading partners.

More than any other Canadian region, the west's economic performance depends on world trends rather than merely domestic trends. The west earns its living by producing and exporting resources and commodities.

For that reason, all four provincial premiers and many business leaders in the west were strong supporters of the US Canada Free Trade Agreement.

During the federal election, the Alberta government spent more than $500,00 in local media to back free trade while Mr Grant Devine, the Saskatchewan Premier, espoused free trade in a letter to 60,000 Saskatchewan farmers and in speeches elsewhere in Canada during the election.

British Columbia's Mr Vander Zalm will rely on the novelty of the agreement to burnish his province's attractiveness to foreign investors as well as to increase manufactured exports. The day after the Canadian election, Mr Vander Zalm's Minister of International Business, Mr John Jensen, announced plans for a British Columbia trade promotion organisation modelled on the successful, privately-financed Hong Kong Trade Development Council.

Of the four premiers, only Manitoba's Mr Gary Filmon faces a likely election this year. He leads a Progressive Conservative government, which won only a precarious minority early in 1987 and now faces a major challenge from a surging provincial Liberal opposition.

The other three – Mr Vander Zalm, Mr Devine and Alberta's Conservative Mr Donald Getty – are expected to face the voters in 1990.

However, none is secure, especially if business slows, and all four are looking nervously at signs of an economic slowdown which may begin later in 1989. The current collapse in the world oil price could result in serious damage to economic performance in the west, which produces nearly all of Canada's oil and natural gas.

When oil prices dip below US$10 a barrel, a large amount of Canadian production becomes marginal. Because the year started with significantly higher oil prices, the industry committed itself to a high level of exploration. Oilweek magazine in Calgary estimates that $3.7bn will be spent in the west on exploration this year compared with $2.2bn in 1987.

However, the number of active rigs peaked at 416 in March; since mid-year, exploration activity has declined steadily and there are expected to be about 200 rigs active at year-end. Most will be looking for natural gas.

The reason is the strengthening demand for natural gas in the US, where exploration has not been replenishing American gas reserves. Canadian natural gas exports to the US by mid-1988 were 41 per cent ahead of the previous year's exports – although competitive marketing in a newly-deregulated environment has resulted in an average decline of almost 20 per cent in the selling prices.

Forest products, after three increasingly strong years, clearly have hit the top of the cycle and are in for some softening, although nothing like the disastrous slump early this decade.

Newsprint producers, after raising prices several times from about $500 a tonne since the third quarter of 1986, encountered price resistance from American publishers when a 7 per cent increase (to $685 a tonne) was proposed for January 1.

There are two reasons why this resistance is effective. Publishers report a reduction in retail advertising in the US and a post-election slump in advertising lineage, both in the US and Canada, is envisaged. As a result, there has been some shaving of newspaper sizes.

Second, a massive surge of new newsprint capacity will come on stream late in 1989 and continue through 1990. The additional tonnage in North America and worldwide will restrain newsprint during the early 1990s.

Similarly, most observers believe pulp prices will also level off after three years of increases. The Bank of Montreal forecasts that "pulp prices are expected to move down" with the projected slowing of growth in demand. The bank's view is that demand will ease because of a slowdown in global economic growth and because of new capacity coming on.

That is by no means a universal view of pulp's outlook. Mr Eric Lauritzen, vice-president of pulp and paper marketing for MacMillan Bloedel Vancouver, the forest products company, says: "Business is good with little new supply coming on and we should remain in a very balanced position through 1989."

The softest forestry sector is lumber. The slowdown in US housing start-ups has been offset, but only in part, by strong housing sectors in Japan and Britain, markets of increasing importance for western lumber.

Even so, the Bank of Montreal forecasts that lumber prices will weaken from the eight-year peak achieved in 1987. This time, MacMillan Bloedel agrees. Mr William St John, the company's vice-president of lumber marketing, says: "We're in for a downturn in demand for lumber for housing."

The economies of the Prairies are also suffering from the severe 1988 drought. Western farmers produced only 14.3m tonnes of wheat this year, compared with 25m tonnes in 1987 and a record 30m tonnes in 1986. "This year, many prairie producers experienced the worst growing conditions ever recorded," said Mr Donald Mazankowski, Canada's Deputy Prime Minister.

The federal government announced that farmers would receive special drought assistance payments totalling $850m. These payments were in addition to an estimated $1bn in crop insurance payments being made. While these are national figures, most pay-outs are being made to western farmers.

The 1988 drought, the worst in a three-year cycle, has forced some debt-burdened producers to leave agriculture and is causing other rationalisation.

The most dramatic announcement has been that the three farmer-owned grain-handling co-operatives – the Manitoba, Saskatchewan and Alberta wheat pools – are moving towards a merger. The three are searching for economies of operation. They are also gearing up to compete with the giant American companies in the approaching free trade environment.

The outlook remains generally favourable for mining, another of the west's major industries. The year's decline in the price of gold has not yet discouraged vigorous exploration for the metal in major gold plays in northern British Columbia and northern Saskatchewan. At the same time, the persistent strength in base metal prices is slowly reviving interest in base metal exploration, where Canadian reserves have been in a decade-long decline.

In Saskatchewan, the potash industry is producing at about two-thirds of capacity but strong demand is reducing inventories quickly. Canpotex, the Saskatoon-based marketer of Canadian potash outside North America, says that 1988 export tonnage will top 1987's record 4m tonnes and that the mineral is fetching better prices.

John Schreiner

IMMIGRATION

An ambivalent policy

HOWEVER MUCH it might have freed the flow of goods and capital across its borders, Canada remains a protectionist nation when it comes to one commodity: people.

For one thing, the US-Canada free trade agreement does not provide for the free movement of labour, except for certain business and professional classes. And, in general, Canadian immigration policy remains restrictionist.

For a country populated almost exclusively by immigrants, with one of the lowest population densities in the world, this may seem curious. However, it is indicative of the ambivalent attitude Canadians have always displayed to the question of immigration.

Polls consistently show a substantial majority of Canadians oppose any loosening of immigration policy. Yet it is equally an immense source of pride among Canadians to be thought a welcoming haven for the world's outcasts – a paradox doubled by the absence of much practical evidence to support this belief.

The same ambivalence is reflected in current government policy, which seems both to want to encourage and discourage immigration at the same time. On the one hand, the government has loosened overall immigration quotas from the tightly restrictive policy pursued by the former Liberal government during the recession of the early 1980s.

The immigration ceiling this year was set at 135,000, compared with the 84,000 admitted in 1984. The government's long-term goal is said to be a quota of 200,000. It has also created a new class of "investor" immigrant, allowing unlimited entry for those wealthy and/or desperate enough to plunge at least C$250,000 (£113,000) over three years into the Canadian economy, an invitation that has proved particularly attractive to uneasy capitalists from Hong Kong.

On the other hand, it has passed two bills aimed at stemming or at least regulating the flow of refugee claimants. While the bills have appeased those concerned at the number of refugees flooding into the country, those of a more liberal disposition have been alarmed by the toughness of some proposed measures.

Like many countries, Canadian immigration law distinguishes between immigrants who leave their country for political reasons – refugees – and those who leave for economic reasons – ordinary immigrants. Unlike immigrant applications, refugee claims can be processed in Canada, so that those with a "well-founded fear of persecution," according to the UN definition, need not wait in their country of origin while the legitimacy of their claim is determined.

Hence the incentive to fly, sail or drive to Canada and claim refugee status on arrival. Though the official quota on refugees is 18,000, the backlog of putative refugees in Canada awaiting processing of their claims is now put at 60,000. Estimates of the number of illegal immigrants living in hiding somewhere in the country go as high as 200,000.

Pressure is building for a substantial opening of the doors. Businesses, for instance, want more immigration to fill certain skill shortages

The problem for the Canadian authorities is that the higher the pile of unprocessed claims grows, and the longer the delay, the greater the incentive for would-be refugees to jump into the hopper, since they are allowed to remain in Canada for the several years it takes to settle their claim. This incentive is reinforced by the habit of officials to declare a general amnesty every couple of years.

While all three major parties profess to favour expanding immigration, a sense of the resentment lurking beneath the surface of public opinion makes them equally ambivalent in their policy pronouncements.

For example, Mr John Turner, the Liberal leader, made an expansionist policy one of his platform planks in the recent election: however, he was heard to declare on an open-line radio show, shortly after the arrival off the coast of Nova Scotia of 174 Sikhs from India in the summer of 1987, that he would have "turned the boat around."

Such incidents seem to occur every few months, always to the acute discomfort of the government and the delight of the media. The public outrage that attends each new recurrence is almost always couched in concerns for the "integrity" of the immigration system. This is curious, given Canadians' well-known delight in undermining the integrity of the customs and income taxation systems.

The immigrant-refugee distinction is not the only preference in Canadian immigration law. Current policy divides immigrants into three broad categories. The first of these is immediate family of current residents. Immigration under the family reunification category is largely unrestricted, and accounts for roughly half of all immigrants. Second are business immigrants, including entrepreneurs, the self-employed and the new "investor" category. Third are independent immigrants.

The last group are subjected to an elaborate test known as the points system, designed to ensure their adaptability to the Canadian economy. A maximum of 12 points is awarded for education, 15 for specific vocational preparation, 10 for occupational demand and so on through age and language facility down to 10 points for something called "personal suitability" and 10 for "levels control." A score of 70 out of 100 is required to pass.

It was not always so. Through the first 30 years of its existence as a self-governing nation, Canadian immigration policy was essentially on an open-door basis. From confederation in 1867 until 1895, Canada absorbed 1.5m immigrants, virtually without restriction, as part of a conscious policy of nation-building.

Even under the selective policy introduced by Sir Clifford Sifton, overall numbers remained high; in the first 10 years of this century, a further 1.5m immigrants came to Canada, most to settle the Prairies – a number not surpassed in any decade since. At almost 3 per cent per annum, the rate of intake in that decade was more than three times as high as at present. In the peak year of 1913 alone, more than 400,000 people were admitted.

The onslaught of the First World War ended this period of relatively free entry, and in the Depression the doors were shut almost entirely. Though policy turned expansionist in the 1950s and 1960s, it tightened to near Depression levels in the later years of Mr Pierre Trudeau's Prime Ministership. On a proportionate basis, even the present totals are barely half Canada's historic average.

Still, a constituency is building in Canada for a substantial opening of the doors, if perhaps accompanied by a hint of social engineering. A recent government research report suggested the wholesale import of orphans from the Third World, to rebalance Canada's ageing population. Business groups want more immigration to fill certain skill shortages, especially in southern Ontario, where labour markets are tight. Church groups are active in promoting an expansion of Canada's refugee quotas.

More immigration was also one of the recommendations of the influential 1985 report of the Royal Commission on the Economic Union and Development Prospects for Canada, headed by the former Liberal Finance Minister, Mr Donald Macdonald. The Macdonald Commission, as it is known, pointed out that Canada's population – now 26m – is stagnating, and would on current trends begin to decline around 2020, falling to an estimated 10m by the end of the following century.

This would be an extraordinary turnabout, given the confident predictions often voiced in the early 1900s that the country's population would exceed 100m by the end of this century.

Andrew Coyne